

United States Air Force

Utilities Privatization Policy and Guidance Manual



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1 Acronyms

2	A/E	Architect /Engineer
3	AF/AQ	Assistant Secretary of the Air Force, Acquisition
4	AF/DPP	Division of Personnel Programs, Education, and Training; Deputy Chief
5		of Staff, Personnel
6	AF/IL	Deputy Chief of Staff for Installations and Logistics
7	AF/ILE	Office of the Civil Engineer
8	AF/ILEC	Engineering Division, Office of the Civil Engineer
9	AF/ILEO	Operations and Maintenance Division, Office of the Civil Engineer
10	AF/ILEP	Programs Division, Office of the Civil Engineer
11	AF/ILEV	Environmental Division, Office of the Civil Engineer
12	AF/ILEX	Readiness & Installation Support Division, Office of the Civil Engineer
13	AF/ILEXO	Installation Support Branch, Readiness and Installation Support Division
14	AFAC	Air Force Acquisition Circular
15	AF/XPM	Deputy Chief of Staff for Plans and Programs, Manpower and
16		Organization
17	AFCEE	Air Force Center for Environmental Excellence
18	AFCESA	Air Force Civil Engineer Support Agency
19	AFFARS	Air Force Federal Acquisition Regulations Supplement
20	AFI	Air Force Instruction
21	AFLMA	Air Force Logistics Management Agency
22	AFLSA	Air Force Legal Services Agency
23	AFM	Air Force Manual
24	AFMC	Air Force Material Command
25	AFSC	Air Force Specialty Codes
26	BRAC	Base Realignment and Closure
27	CATEX	Categorical Exclusion
28	CC	Commander
29	CEA	Certified Economic Analysis

1	DAC	Designated Acquisition Commander(
2	DESC	Defense Energy Support Center
3	DFARS	Defense Federal Acquisition Regulations Supplement
4	DLA	Defense Logistics Agency
5	DoD	Department of Defense
6	DRI	Defense Reform Initiative
7	DRU	Designated Reporting Unit
8	DRID	Defense Reform Initiative Directive
9	EA	Economic Analysis
10	EBS	Environmental Baseline Survey
11	EIAP	Environmental Impact Analysis Process
12	EIS	Environmental Impact Statement
13	ESPC	Energy Savings Performance Contract
14	FAR	Federal Acquisition Regulation
15	FM	Financial Manager
16	FOA	Field Operating Agency
17	FYDP	Future Years Defense Plan
18	HQ	Headquarters
19	GCE	Government Cost Estimate
20	IDS	Integrated Data System
21	IPT	Integrated Process Team
22	JA	Judge Advocate
23	MAJCOM	Major Command
24	MFH	Military Family Housing
25	MILCON	Military Construction
26	NAVFAC	Naval Facilities Engineering Command
27	NEPA	National Environmental Policy Act
28	NPV	Net Present Value
29	O&M	Operations and Maintenance
30	OMB	Office of Management and Budget

1	OCN	Original Cost New
2	OCNLD	Original Cost New Less Depreciation
3	OSD	Office of the Secretary of Defense
4	PEO	Program Execution Officer
5	PMP	Program Management Plan
6	POC	Point of Contact
7	POM	Program Objective Memorandum
8	QA/QC	Quality Assurance/Quality Control
9	RCN	Replacement Cost New
10	RCNLD	Replacement Cost New Less Depreciation
11	RFI	Request for Interest
12	RFP	Request for Proposal
13	SAF/AQ	Assistant Secretary of the Air Force (Acquisitions)
14	SAF/AQC	Deputy Assistant Secretary of the Air Force, Contracting
15	SAF/FMB	Deputy Assistant Secretary of the Air Force, Budget
16	SAF/FMC	Deputy Assistant Secretary of the Air Force, Cost and Economics
17	SAF/GCN	Deputy General Counsel for Installations and Environment
18	SAR/IE	Assistant Secretary of the Air Force (Installations, Environment and Logistics)
19		
20	SAF/IEI	Deputy Assistant Secretary of the Air Force, Installations
21	SAF/IEIR	Air Force Real Estate Agency
22	SAF/LL	Office of Legislative Liaison
23	SAF/PA	Office of Public Affairs
24	SECAF	Secretary of the Air Force
25	SON	Statement of Need
26	SOQ	Statement of Qualifications
27	SOW	Statement of Work
28	SSA	Source Selection Authority
29	SSET	Source Selection Evaluation Team
30	SSP	Source Selection Plan

- | | | |
|---|-------|---------------------------------------|
| 1 | USACE | United States Army Corps of Engineers |
| 2 | USAF | United States Air Force |
| 3 | USC | United States Code |

1 Executive Summary

*This Utilities Privatization
Policy and Guidance
Manual provides procedures
to implement the DRI to
privatize DoD utility
systems.*

2 This *Utilities Privatization Policy and Guidance Manual* was
3 originally prepared by Headquarters, United States Air
4 Force, Deputy Chief of Staff for Installations and Logistics,
5 Office of the Civil Engineer, Readiness and Installation
6 Support Division (AF/ILEX), Installation support Branch
7 (AF/ILEXO), referred to as the Privatization Branch.

8 This policy and guidance identifies major roles and
9 responsibilities, discusses legislative authority, and
10 presents the processes required to privatize utility plants
11 and systems in accordance with the Defense Reform
12 Initiative (DRI) dated November 1997. The DRI specified
13 that all Department of Defense (DoD) utility systems
14 (electric, water, wastewater, and natural gas) be privatized
15 by 1 January 2000, except those needed for unique security
16 reasons or when privatization is uneconomical. The DRI
17 was implemented by Defense Reform Initiative Directive
18 (DRID) #9 and, later DRID #49 which requires the award
19 of privatization contracts for all utility systems no later
20 than 30 Sep 03. September 2002 Revised Guidance for the
21 Utilities Privatization Program provided the current
22 guidelines:

- 23 • By 30 September 2003 close Requests for Proposal
24 or submit certificates of exemption on at least 80
25 percent of a component's utility systems available
26 for privatization.
- 27 • By 30 September 2004 reach Source Selection
28 Authority decisions or submit certificates of
29 exemption on at least 65 percent of a component's
30 utility systems available for privatization.

31
32 Privatization is the process by which the Air Force will
33 transfer to a qualified entity, which may include
34 companies that are not considered typical utility
35 companies, ownership of the utility system, while at the
36 same time contracting for the provision of quality utility
37 service to all installation facilities. The procedures
38 outlined in this policy and guidance focus on executing
39 privatization projects to meet the requirements of the
40 DRID using the statutory authority of Section 2688, Utility
41 Systems Conveyance Authority, of Title 10, United States
42 Code (10 USC § 2688).

*The utilities
privatization
process has three
major phases.*

1 Once the Air Staff identifies utility systems eligible for
2 privatization, the Installation/Wing Commander is
3 responsible for executing appropriate privatization
4 projects. The Major Command (MAJCOM) will assist and
5 facilitate the privatization process and interact with
6 AF/ILEXO on policy issues and the Deputy General
7 Counsel for Installations and Environment (SAF/GCN) on
8 legal issues. Headquarters, Air Force Civil Engineer
9 Support Agency (HQ AFCESA) and Headquarters, Air
10 Force Center for Environmental Excellence (HQ AFCEE)
11 will provide technical and contract support for performing
12 the required analyses.

13 The utilities privatization process includes a preliminary
14 screening process followed by a three-phase process,
15 described below:

- 16 • **The Preliminary Screening Process** is performed
17 for all programmed utility systems to determine
18 which systems are exempt from privatization for
19 readiness or unique security reasons. The Secretary
20 of the Air Force (SECAF) makes exemption
21 decisions.
- 22 • **The Project Plan and Feasibility Analysis Phase**
23 results in the Project Plan and Feasibility Analysis
24 Report. This Feasibility Analysis Report includes a
25 Preliminary Economic Analysis (EA) and
26 determines whether responsive proposals for the
27 purchase of the system are likely to be received.
- 28 • **The Comprehensive Analysis Phase** results in a
29 Draft Comprehensive Analysis Report and Draft
30 Request for Proposal (RFP). The Comprehensive
31 Analysis Report includes analyses on real estate,
32 environmental, transition, and planning issues
33 affecting privatization. This phase also determines
34 appropriate terms and conditions to be factored
35 into preparing the Draft RFP.
- 36 • **The Final Feasibility, Approval, and**
37 **Implementation Phase** results in either a
38 Privatization Approval Package or Privatization
39 Non-Economic Package submitted for SECAF
40 approval. The Privatization Approval Package is
41 composed of various Comprehensive Analysis
42 Report elements. The entire Comprehensive
43 Analysis Report with the supporting analyses will

1 not be submitted but must be available as back up
2 and as the departure point for follow-on analyses if
3 the recommended course of action is not approved
4 or is modified during the review. Systems not
5 selected for privatization because of lack of market
6 interest or where costs exceed benefits will be
7 documented in a Privatization Non-Economic
8 Package. Specific elements of the Privatization
9 Approval Package and Privatization Non-
10 Economic Package can be found in Appendix E.

11 Once each phase is completed the resulting documents
12 will be reviewed to determine whether to proceed to the
13 next phase or exempt the utility system from privatization.
14 Only the SECAF can exempt a utility system from
15 privatization.

1.0 Utilities Privatization Policy

Overview

Air Force vision: privatize utility systems where it makes economic sense and has no adverse impact on readiness or security.

Utilities will be transferred under 10 USC § 2688, Utility System Conveyance Authority.

This policy and guidance does not address leasing, competitive sourcing, or ESPC.

This Utilities Privatization Policy and Guidance provides implementing policy and guidance to comply with DRID #49 to privatize electric, water, wastewater, and natural gas utility systems owned and operated by the Department of the Air Force. The objectives of the DRID (**Appendix A**) are to reduce long-term financial requirements to support these systems, thereby making scarce funds available for mission-critical requirements, such as force modernization, and to permit Air Force leadership to focus on core competencies and the global mission to achieve air and space superiority. Utility systems that are exempt from privatization under the DRID are those subject to readiness or unique security considerations or utility systems where privatization is determined not to be economical.

Several Air Force goals must be achieved and maintained throughout the privatization process. The Air Force's basic goal is to transfer ownership of utility systems to obtain better economies. The transfer of utility system ownership and the responsibility to provide utility services must make good business sense and result in the Air Force purchase of utility services at a lower long-term cost. The privatized utility service must also be as reliable as the current Air Force system. The Air Force will not privatize under 10 USC § 2688 utilities systems that, in the view of the SECAF, are required for mission readiness.

This policy and guidance does not address leasing or concessions, competitive sourcing (contracting out system operations and maintenance [O&M]), or energy savings performance contracts (ESPCs) (projects executed under 42 USC § 8287, Shared Energy Savings, involving private sector capital for energy savings projects). For competitive sourcing projects, attention is directed to the Office of Management and Budget (OMB) Circular A-76, Performance of Commercial Activities; the Air Force Logistics Management Agency (AFLMA) Competitive sourcing Guide for Contracting; and Air Force Instruction (AFI) 38-203, Commercial Activities Program.

1 **Application**

2 This policy and guidance applies to all Air Force
3 Installations, MAJCOMs, Reserve Components, field
4 operating agencies, and direct-reporting units that
5 currently operate and maintain government-owned utility
6 systems.

7 **Goals**

- 8
- 9 a. **Utilities Privatization Goal:** Divest the Air Force of,
10 and privatize all utility systems, by 30 Sep 05, where
11 they prove economical and do not degrade the
12 security/readiness mission of Air Force installations.
13
- 14 b. **Interim Utilities Privatization Goals:**
- 15
- 16 • Complete determinations of feasibility (“go/no-go”
17 decision) to privatize for all utility systems by 30
18 Sep 00.
 - 19
 - 20 • By 30 September 2003 close Requests for Proposal
21 or submit certificates of exemption on at least 80
22 percent of a component's utility systems available
23 for privatization.
 - 24
 - 25 • By 30 September 2004 reach Source Selection
26 Authority decisions or submit certificates of
27 exemption on at least 65 percent of a component’s
28 utility systems available for privatization

29 **Effected Utility Systems**

30 All installation exterior utility systems (electrical, natural
31 gas, water and sanitary wastewater) will be considered
32 potential privatization candidates. Utility privatization is
33 the transfer of ownership of the utility system to a public
34 or private sector entity. The Air Force, including Active
35 and Reserve Components, conveys the entire system and
36 no longer operates, maintains, or repairs these systems.

- 37
- 38 a. The Secretary of Defense has mandated that a
39 privatization evaluation of each utility system at every
40 Active Duty, Reserve, and Guard installation within

the United State and overseas that is not designated for closure under a base closure law be completed by 30 Sep 05 and established milestones for accomplishing and tracking these actions.

b. These category codes generally describe systems being considered for privatization:

(1) Electrical: 811-149, 812-223, 812-224, 812-225, 812-226, 813-228, 813-231, 890-181, 890-185, 890-187

(2) Natural Gas: 823-244, 823-248, 823-243, 824-462, 824-464, 824-466, 824-468

(3) Water: 811-147, 841-161, 841-163, 841-165, 841-166, 841-169, 841-423, 841-425, 841-427, 842-245, 842-246, 842-249, 843-314, 843-315, 843-316, 843-319, 844-367, 844-368, 845-362, 845-363

(4) Sanitary Wastewater: 811-147, 831-145, 831-165, 831-168, 831-169, 832-255, 832-266, 832-267

c. Utility Systems are defined in Appendix C.

Divestiture Strategy

The utilities privatization process may result in different acquisition strategies. Approval of the divestiture strategy ultimately resides with the Source Selection Authority (SSA).

a. **Full and Open Competition:** 10 USC § 2688 provides that if more than one utility or entity expresses interest in a conveyance, the conveyance of the system shall be carried out through the use of competitive procedures. The sale of a utility system under 10 USC § 2688 is a disposal of personal property since only the equipment making up the utility system is being disposed of. A right-of-way for the owner to gain access to the system will accompany the bill of sale. It is not a sale of real estate. The Air Force will have to contract with the new owner to distribute the utility commodity. The resulting contract may address supplying the wholesale commodity itself, although this is not necessarily a requirement in every sale. It may be beneficial and necessary to combine the supplying of the commodity with the distribution service as in the

1 case of water and wastewater systems. It may be
2 beneficial to separate the two, as in the case of electric
3 and gas systems, in order to take advantage of future
4 deregulated markets. In either situation, there will be a
5 sale of the utility system under 10 USC § 2688 – a
6 property disposal – and an acquisition of utility
7 services under the Federal Acquisition Regulation
8 (FAR). These are two distinct actions, but they are
9 necessarily connected since they must be done at the
10 same time and, presumably, in the same action. Title
11 10 USC § 2302 and 2304 provides the rules governing
12 when and how competitive procedures are to be used.
13 If disposal action and acquisition action are handled as
14 a single transaction, the FAR applies and the
15 solicitation will contain FAR terms and conditions
16 governing the entire process and the resulting services
17 contract, but not the resulting disposal. In other
18 words, use FAR provisions to conduct the entire action,
19 but only apply the substantive FAR provisions to the
20 resulting services contract, not to the resulting sale. If
21 the divestiture portion of the transaction is reflected in
22 a different document than the utility contract, that
23 portion is not required to have FAR terms and
24 conditions, although they can be included.

- 25
26 b. **Sole Source:** If an installation resides in an area served
27 by a franchised and regulated utility, that franchise
28 holder shall not be considered the presumptive
29 conveyee, nor shall another responsible and responsive
30 utility or entity that expresses interest be excluded
31 from competition. Installations may not rely on the
32 assertions of franchised or regulated utilities in this
33 regard. Rather, an independent legal finding, based on
34 State law and regulatory policy, must be made by the
35 installation legal office determining that the franchised
36 or regulated utility is the only entity authorized to own
37 and operate the utility system to be privatized. In most
38 cases, only when a franchise is exclusive, (meaning
39 both a franchise is required and that only one entity
40 may hold the franchise at any one time), will sole
41 source be an alternative. In either case, DRID #49
42 requires an independent finding to determine that the
43 franchised or regulated utility is the only entity
44 authorized to own and operate the utility system being
45 privatized. Mere convenience is not sufficient reason
46 to find a sole-source situation.

1
2 c. **Total Privatization versus Partial Privatization:**

3 Privatizing a portion of a specific system, (i.e., only the
4 plant), does not fit the OSD definition of
5 privatization/ total divestiture of that specific system.
6 Systems shall not be partially privatized. The entire
7 system must be conveyed in order to be defined
8 "privatized."
9


10 d. **Ownership:** Government-owned utility systems may
11 be identified by reviewing appropriate DD Forms 1354,
12 *Transfer and Acceptance of Military Real Property*.
13 Additionally, if a system is on the AF real property
14 records, then the AF is the likely owner. Systems with
15 uncertain ownership must be identified and ownership
16 resolved at the earliest opportunity. Government
17 ownership of the land over, on, or in which the
18 systems are placed must be decisively determined. For
19 example, is the system being considered owned by
20 others but the land is owned by the Air Force or is the
21 system owned by the Air Force on land owned by
22 others, or is any part of the land containing a system an
23 addition to the original base property and owned by
24 whom or does a lease exist that would prohibit a Right
25 of Way.
26

27 e. **Housing Privatization Conflict:** Many initiatives are
28 underway to privatize housing at Air Force
29 installations. On-going housing privatization efforts
30 differ in their conceptual approaches with regards to
31 utility systems. Consult your MAJCOM housing
32 privatization staff for information regarding the
33 disposition of utility systems for these on-going
34 initiatives. Future housing privatization efforts which
35 seek to convey units and underlying real estate should
36 include the underlying utilities. Future housing
37 privatization efforts which seek to convey units, but
38 lease the underlying real estate, should not include the
39 underlying utilities. Rather, under the utilities
40 privatization program, transition of these utility
41 systems should occur at the meter, meter socket,
42 weatherhead, main panel shut off, shut-off valve or
43 clean-outs.
44

45 For installations with privatized military family
46 housing (MFH) or where an announced MFH

1 privatization initiative is underway, modifications to
2 the points of demarcation, and billing/ metering
3 strategies may have to be made. In these cases,
4 deconfliction of the housing privatization Statement of
5 Need (SON), and the utilities privatization Statement
6 of Work (SOW) scopes will be necessary. The
7 identification of costs associated with the systems is
8 spelled out in the RFP. The costs identified are to be
9 paid, as stated in the RFP.

10
11 Where there is both MFH and Utilities Privatization,
12 the base and MAJCOM IPT need to coordinate with
13 AFCEE for MFH Privatization issues and AFCESA for
14 Utilities Privatization issues. The Point of Contact
15 (POC) for the program initiated first shall contact the
16 other program POC to ensure the language in both
17 RFP's is consistent, compatible, and contribute to
18 achieving favorable economics for both programs.

- 19
20 f. **Exemptions:** When applying the exemption for unique
21 security concerns, consider the following: If
22 privatization is found to impact the unique security of
23 an installation as determined by unmitigatable
24 findings in an operational risk management
25 assessment, such as adversely impacting the readiness
26 core and thereby jeopardizing the Prime BEEF mission
27 for the installation, then the exemption should be 
28 applied to the specific utility system. Decreased
29 opportunity for training of Prime BEEF team members
30 is not a reason for exemption as this is a mitigatable
31 circumstance. Insufficient manpower to fulfill the
32 wartime requirement is reason for exempting a utility
33 system. All efforts to provide sufficient manpower,
34 through reassessing the Military/Civilian mixture
35 and/or offering positions with Air Force Specialty
36 Codes (AFSC) which are excess to the wartime
37 requirement at an installation, should be exhausted
38 prior to seeking this exemption.

39 **Contract Support**

40 To alleviate some of the burden of execution for our
41 already heavily tasked installations, we have prearranged
42 and funded contracts designed to support execution
43 efforts. This contract support will be provided and
44 managed through HQ AFCESA and HQ AFCEE to
45 support your installations. The program is centrally

1 funded.

2

3 a. Installations will tailor a generic statement of work
4 (SOW) to include all systems at each installation as
5 well as any systems at support sites tied to those
6 installations (like recreational sites, geographically
7 separated units (GSUs) or auxiliary fields). The
8 majority of installations have off-base sites of varying
9 size and distance from the installation. These sites are
10 not programmed for in the Utilities Privatization
11 Program. Although not specifically covered in DRID
12 #49 (major and minor installations only), current policy
13 requires installations to include any auxiliary/support
14 sites in the tailoring of the SOW for the main
15 installation. As sufficient funds are not programmed
16 to support all additional sites, for those systems
17 exempt due to readiness requirements or that are
18 already privatized, no analysis will be conducted on
19 like systems at any of that installation's sites.

20

21 b. To take advantage of economies of scale, HQ AFCESA
22 will review and seek opportunities to consolidate
23 systems at installations within a particular region or
24 state.

25

26 c. HQ AFCESA will consolidate statements of work for
27 contractor support, as appropriate.

28

29 d. The Air Force has entered into an agreement with the
30 Defense Energy Support Center (DESC) of the Defense
31 Logistics Agency (DLA). Under this agreement,
32 DESC will partner with the Air Force and provide
33 contracting support to assess and, if possible, privatize
34 utility systems. When requested by a MAJCOM, DESC
35 can provide contracting support to execute utility
36 privatization efforts or provide program management
37 capabilities. The Air Force will provide the source
38 selection evaluation team chief for all projects.

39

1 Individual requiring activities must justify and obtain
2 necessary approvals for use of Architect/Engineer (A/E)
3 contract support in technical evaluations. Source Selection
4 Draft Policy and Procedures, Subpart 5315.303(g)(2),
5 requires the contracting officer to ensure necessary
6 approval has been obtained IAW FAR Part 37.2. Current
7 A/E contract support provides for technical assistance and
8 negotiation support. FAR 37.204 requires head of agency
9 determination to use contractor support when government
10 personnel are not available to support source selection.
11 Individual requiring activities must process required
12 justification in accordance with the 19 Jul 96 SAF/AQX
13 policy letter on Air Force Advisory and Assistance
14 Services.

15 **Specific Guidance**

*AF/ILEXO is the focal point
for privatization initiatives.*

16 The SECAF has designated the Assistant Deputy Chief of
17 Staff for Installations and Logistics (AF/IL) as the program
18 champion, thus providing senior leadership and
19 continuity, as well as spearhead timely execution of the
20 program. AF/ILEXO is the focal point for all utilities
21 privatization. AF/ILEXO is tasked with managing
22 privatization initiatives and implementing the following
23 policy guidelines:

*Mission and force readiness
will not be jeopardized.*

- 24 • The utilities privatization process outlined in this
25 policy and guidance will be used for the
26 privatization of all Air Force utility plants and
27 systems. Mission capability and force readiness
28 cannot, and will not, be jeopardized as part of the
29 process.
- 30 • All Air Force utility systems will be considered for
31 privatization. However, to ensure that operational
32 impacts are not overlooked, a series of vulnerability
33 assessments using operational risk management
34 techniques are incorporated at the programmatic
35 and base levels of the program to identify
36 privatization exemptions for the following reasons:
 - 37 -- Readiness (Air Staff screen)
 - 38 -- Unique security requirements (Air Staff and
 - 39 MAJCOMS)
- 40 • Only two alternatives for privatizing utility
41 systems are considered in this policy and guidance:

	1	the status quo and privatization. Privatization is
	2	selling a utility system and its assets and, if
	3	appropriate, the underlying real estate, to a
	4	qualified entity. If privatization is not feasible,
	5	other alternatives, such as competitive sourcing,
	6	will be considered; however, these alternatives are
	7	not addressed in this policy and guidance.
<hr/>	8	
<i>Maximize competition</i>	9	• Full and open competition among all interested
<i>to assure best value.</i>	10	and qualified entities is generally required. Full
<hr/>	11	competition will help ensure the best value for the
	12	Air Force.
	13	
	14	• All privatization projects will be supported by an
	15	EA based on accepted life-cycle costing procedures
	16	that demonstrate the long-term economic benefit
	17	and reduced long-term costs of the sale. In theEA,
	18	all costs to the United States, not just the Air Force,
	19	must be analyzed, including hidden costs such as
	20	indirect military and civilian staffing, taxes, and
	21	insurance. TheEA must adhere to OMB Circular A-
	22	94, Guidelines and Discount Rates for Benefit Cost
	23	Analysis of Federal Programs; AFM 65-506,
	24	Financial Management andEA; and any
	25	supplemental guidance from Headquarters, United
	26	States Air Force (HQ USAF).
	27	
	28	• Real estate and planning implications of
	29	privatization alternatives must also be considered,
	30	including the Housing Privatization Program, on-
	31	and off-base land use, access, security, traffic
	32	control, encroachment, and environmental effects.
	33	The potential industry and local community
	34	interest in the privatization project should also be
	35	identified and evaluated.
<hr/>	36	
<i>OMB Circular A-76,</i>	37	• OMB Circular A-76 requirements and procedures
<i>Performance of Commercial</i>	38	do not apply to utilities privatization under 10 USC
<i>Activities, does not apply to</i>	39	§ 2688.
<i>privatization.</i>	40	
<hr/>	41	• Installations will keep the local community
	42	informed of the potential for utility system
		privatization. Privatization projects may include
		evaluating the purchase of services from off base or
		using government property to develop needed
		utility infrastructure along with sale of the existing
		system.

*Projects must make
good business sense.*

- The following criteria will be considered in proceeding with privatization:
 - Economic viability and market interest will be assessed preliminarily before the RFP is developed.
 - Offerors direct financial capability, as well as that of their affiliated companies, will be thoroughly reviewed before any award is recommended.
 - Air Staff will consider long-term force structure impacts.
 - RFPs will clearly state that the Air Force may decide not to award a contract or make a selection, and such a decision involves no liability to the Air Force.
- Privatization must not adversely affect force structure. The Air Staff/MAJCOMs will identify any utilities potentially affected by these criteria and remove them from further consideration for privatization.

*Break-even or better life-
cycle cost savings required
for privatization.*

Utility privatization may only take place under 10 USC § 2688 when the long-term benefit exceeds the long-term costs and long-term costs will be reduced. These calculations are based on a life-cycle analysis of “should” costs. OMB Circular A-94 allows for choosing, as between alternative offers, a more costly alternative if the benefits can be demonstrated to be greater. Thus, the selection process for privatization will be based on the “best value” of those proposals that also meet the economic requirements of 10 USC § 2688.

Delegation of Authority

The authority to proceed with privatization of a particular utility system will be delegated to the appropriate level; currently, 10 USC § 2688 authority has not been delegated below the Deputy Assistant Secretary of the Air Force (SAF/IEI). Authority to make congressional notifications will not be delegated below the level of SAF/IEI. A decision not to pursue a specific project that has passed the readiness and security revalidation process must be reviewed and approved by the SECAF.

- a. **Delegation of Conveyance Authority:** 10 USC § 2688

1 granted conveyance authority to the "Secretary of a
2 military department." This conveyance authority was
3 delegated from the Secretary of the Air Force to the
4 Assistant Secretary of the Air Force (Installations,
5 Environment and Logistics) (SAF/IE) by Secretary of
6 the Air Force Order (SAFO) 700.7, *Real Property Use and*
7 *Disposal* (18 Mar 00). SAF/IE subsequently issued a
8 memo (30 Mar 00) re-delegating conveyance authority
9 to SAF/IEI. This conveyance authority for utility
10 systems under the Air Force Utilities Privatization
11 Program has not been re-delegated from SAF/IEI to a
12 level lower.
13

14 **b. Delegation of Source Selection Authority (SSA):**

15 Deputy Assistant Secretary of the Air Force,
16 Contracting (SAF/AQC) released a 10 Jan 00 memo
17 entitled, "*Interim Revision of Air Force Federal Acquisition*
18 *Regulation Supplement (AFFARS), 5315-3, Table A-B,*
19 *Source Selection Authority*) stating: To provide
20 MAJCOMs the flexibility to designate SSA for specific
21 "Other Contracting" acquisitions at levels other than
22 those prescribed in AFFARS 5315-3 Tables A and B,
23 these Tables are changed effective immediately as
24 shown in the attachment. This contracting Policy
25 Memorandum will remain in effect until the change is
26 included in a subsequent Air Force Acquisition
27 Circular (AFAC)." AFFARS 5315-3, Tables A-B, now
28 state the AFMC/CC and MAJCOM/CC may designate
29 a SSA at a level other than those listed for a specific
30 "Other Contracting" acquisition of less than \$500
31 Million. Those SSA levels previously listed include:
32

- 33 (1) Contracting Officers for actions under \$10M;
34
- 35 (2) MAJCOM/DRU/FOA Commanders (non-AFMC)
36 for actions from \$10M to \$500M;
37
- 38 (3) AFMC Single Managers for actions from \$10M to
39 \$50M;
40
- 41 (4) AFMC Program Execution Officers (PEO) and
42 Designated Acquisition Commanders
43 (DAC)/Center Commanders for actions from
44 \$50M to \$500M; and Principal Deputy Assistant
45 Secretary of the Air Force (Acquisition &
46 Management) for acquisitions greater than or
47 equal to \$500M.

1
2 c. **Land Conveyance Authority:** The definition of utility
3 system is expanded to include the conveyance of
4 associated real property (land), in addition to
5 easements and rights-of-way, if such property is
6 required to further the privatization of a utility system.
7 As a general rule, the Air Force is not conveying land
8 as part of its utility privatization efforts. In such cases
9 where the conveyance of land is warranted and
10 requested by the MAJCOM, review of the request will
11 be accomplished by the Air Force Utilities Privatization
12 Integrated Process Team.

Privatization is a corporate team effort.

Installation/Wing Commanders have the lead.

2.0 Roles and Responsibilities

Overview

Implementing utilities privatization will require a concerted effort of all concerned, from the installation where the feasibility will be assessed, to HQ USAF where each project will ultimately be approved. To meet the Air Force objectives for utilities privatization, it is important to understand the organizational roles and responsibilities necessary for successful implementation.

Installation/Wing Commanders

Once a particular utility system is screened and determined not to have readiness or unique security impacts, installation commanders are responsible for initiating and guiding the project through the utilities privatization process. Specifically, the installation commanders are responsible for the following:

- Supporting HQ USAF with revalidating readiness impacts that might affect privatization.
- Supporting HQ USAF with revalidating unique security requirements that might affect privatization.
- Preparing the Project Plan.
- Assessing the feasibility of utilities privatization using the process described in this policy and guidance.
- Initiating and maintaining communications with the affected employees, unions, local community, local elected officials, regulators, and the MAJCOM, AF/ILEXO, HQ AFCEA, and HQ AFCEE.
- Completing the Environmental Impact Analysis Process (EIAP) (AFI 32-7061) to assess the environmental impacts of the project.

- 1 • Using HQ USAF provided templates, preparing
2 draft real estate documents, including legal
3 descriptions and appraisals if appropriate.
- 4 • Determine the extent to which the installation must
5 prepare an environmental baseline survey (EBS),
6 AFI 32-7066, *Environmental Baseline Surveys in Real*
7 *Estate Transactions*.
- 8 • Initiating and managing the acquisition process.
- 9 • Awarding the resulting utility service contract and
10 providing post-award project quality control,
11 management, and contract administration.
- 12 • Reviewing the Preliminary, Draft, and Final
13 Deliverables.
- 14 • Resolving policy issues with AF/ILEXO.
- 15 • Resolving legal issues through the MAJCOM/JA to
16 Air Force Legal Services Agency (AFLSA).
- 17 • Establish installation privatization team members.

18 Major Commands

19 MAJCOMs have the primary responsibility for developing
20 the privatization program and providing support to
21 installations in executing privatization projects. To
22 support the privatization program, MAJCOMs are
23 responsible for the following:

MAJCOMs develop

the privatization program.

- 24 • Assisting the Air Staff in identifying unique
25 security requirements that will preclude
26 privatization of particular utility systems.
- 27 • Assisting installations in screening projects for
28 privatization feasibility
- 29 • Supporting site visits, and developing and
30 submitting project documents to AF/ILEXO for
31 review and approval.
- 32 • Assisting in developing the RFP and source
33 selection criteria.
- 34 • Tracking the RFP, proposal, and source selection
35 processes.

- 1 • Identifying, programming, and budgeting utilities
2 privatization support after award.
- 3 • Establishing and directing a MAJCOM utilities
4 privatization management team that includes
5 professionals from contracting, real property,
6 financial analysis, environmental, engineering,
7 legal, and other specialties required for
8 privatization analyses.
- 9 • Assessing the mission impact of privatizing utility
10 systems on a case-by-case basis.
- 11 • Reviewing the Preliminary, Draft, and Final
12 Deliverables.
- 13 • Maintaining efforts to adhere to OSD milestone
14 dates.
- 15 • Ensure property records are corrected to reflect
16 inventory results documented by the UP process
17 and property transfers after the transition process.

18 **Deputy Chief of Staff for Installations and** 19 **Logistics, Office of the Civil Engineer**

20 AF/ILE is tasked with the overall management
21 responsibility for utilities privatization initiatives.
22 Privatization responsibilities include the following:

*AF/ILE is the overall
utilities privatization
program manager.*

- 23 • Developing policy for privatization projects.
- 24 • Developing and maintaining the inventory of
25 utility systems.
- 26 • Reporting changes in utility systems' inventories.
- 27 • Along with the MAJCOMs, determining which
28 utility systems have unique readiness or
29 security requirements resulting in exemption from
30 privatization.
- 31 • Programming and budgeting for privatization
32 program resources.
- 33 • Reviewing the proposed privatization awards prior
34 to submission to SAF/IEI for Congressional
35 notification.

- 1 • Coordinating and guiding privatization projects
- 2 through HQ USAF reviews.
- 3 • Directing the preparation of information and status
- 4 reports mandated by law and notifications of
- 5 project initiation and proposed awards to
- 6 Congress.

7 **Civil Engineer Utilities Privatization**

8 **Integrated Process Team**

The Civil Engineer Utilities Privatization IPT is the executive steering group.

9 The Civil Engineer Utilities Privatization Integrated
10 Process Team (IPT) is led by AF/ILEXO and includes
11 members with expertise in utility operations and
12 construction program management. The Civil Engineer
13 Utilities Privatization IPT is made up of representatives
14 from HQ USAF from the following organizations:

- 15 • Assistant Secretary of the Air Force (Acquisition)
- 16 (SAF/AQ)
- 17 • SAF/IEI
- 18 • Assistant Secretary of the Air Force (Financial
- 19 Management), Budget and Cost Divisions
- 20 (SAF/FMB and SAF/FMC)
- 21 • Legal (SAF/GCN and AFLSA)
- 22 • Office of Public Affairs (SAF/PA)
- 23 • Deputy Chief of Staff for Installations & Logistics
- 24 (AF/IL)
- 25 • Deputy Chief of Staff for Personnel, Personnel
- 26 Programs, Education, and Training Division
- 27 (AF/DPP)
- 28 • AF/ILE
- 29 • Deputy Chief of Staff for Installations & Logistics,
- 30 Office of the Civil Engineer, Engineering Division
- 31 (AF/ILEC)
- 32 • AF/ILEXO
- 33 • Deputy Chief of Staff for Installations & Logistics,
- 34 Office of the Civil Engineer, Operations Division
- 35 (AF/ILEO)

- 1 • Deputy Chief of Staff for Installation & Logistics,
2 Office of the Civil Engineer, Programs Division
3 (AF/ILEP)
- 4 • Deputy Chief of Staff for Installations & Logistics,
5 Office of the Civil Engineer, Environmental
6 Division (AF/ILEV)
- 7 • Deputy Chief of Staff for Installations and
8 Logistics, Office of the Civil Engineer, Readiness &
9 Installation Support Division (AF/ILEX)
- 10 • Deputy Chief of Staff for Plans and Programs,
11 Manpower and Organization (AF/XPM)
- 12 • HQ AFCESA
- 13 • HQ AFCEE
- 14 • SAF/IEIR Air Force Real Estate Agency

15 The Civil Engineer Utilities Privatization IPT was
16 chartered to develop and maintain a program of private
17 sector-financed projects, including the utilities
18 privatization initiative described in this policy and
19 guidance. The IPT serves as the Air Force advocate for
20 executing privatization projects. The Civil Engineer
21 Utilities Privatization IPT is also responsible for
22 developing and managing the overall privatization
23 process. Specific tasks include the following:

- 24 • Developing implementation process guidelines.
- 25 • Addressing program policy and guidance issues.
- 26 • Defining criteria for identifying and integrating
27 privatization projects.
- 28 • Monitoring program and project progress and
29 results using the utilities privatization authority.
- 30 • Reporting program initiatives to the Air Force
31 corporate board structure through the Air Force
32 Competitive Sourcing and Privatization Panel and
33 its Executive Steering Group.

34 The Civil Engineer Utilities Privatization IPT also assists
35 the MAJCOMs by validating project requirements,
36 assisting in project submittal development, and supporting

	1	the integrated acquisition teams formed to solicit and
	2	evaluate proposals.
	3	Headquarters, United States Air Force
	4	Engineering Division, Office of the Civil Engineer
<hr/> AF/ILEC conducts corporate review. <hr/>	5	AF/ILEC conducts corporate reviews and coordinates
	6	policy for Military Construction (MILCON) level
	7	programming, design, and construction associated with
	8	privatization projects.
	9	Installation Support Branch, Readiness and Installation
	10	Support Division, Office of the Civil Engineer
<hr/> AF/ILEXO manages the Air Force privatization program. <hr/>	11	AF/ILEXO manages and oversees the Air Force utilities
	12	privatization program. This role includes working with
	13	SAF/IEI to implement privatization authority. AF/ILEXO
	14	also leads the Civil Engineer Utilities Privatization IPT in
	15	developing and providing overall program policy
	16	guidance to the MAJCOMs. AF/ILEXO is the Air Staff
	17	focal point for utilities privatization policy issues and
	18	projects.
	19	AF/ILEXO supports and guides the MAJCOMs, as
	20	necessary, throughout the process. This includes
	21	participating in installation site visits and reviewing
	22	project submittals, reports, project plans, and
	23	solicitation/acquisition documents. AF/ILEXO also
	24	supports project approval briefings and processes
	25	Congressional notification submittals through SAF/IEI.
	26	Technical Services Division, Office of the Civil Engineer
<hr/> AF/ILEE oversees and manages admin services <hr/>	27	AF/ILEE manages and oversees technical services
	28	activities and is responsible for all administrative services.
	29	Programs Division, Office of the Civil Engineer
	30	AF/ILEP is the advocate for AF/ILE Program Objective
	31	Memorandum (POM) initiatives for privatization.
	32	Environmental Division, Office of the Civil Engineer
	33	AF/ILEV coordinates environmental policy regarding the
	34	implementation of utilities privatization projects.

	1	Readiness and Installation Support Division, Office of the
	2	Civil Engineer
	3	AF/ILEX is responsible for installation issues,
	4	expeditionary engineering, and emergency services
	5	programs.
	6	Personnel Programs, Education, and Training, Directorate of
	7	Personnel
	8	AF/DPP is responsible for entitlements due to employees
	9	and staff affected by privatization of a utility system.
	10	Headquarters, Air Force Civil Engineer Support Agency
<hr/> <i>HQ AFCESA provides technical and specialized expertise in engineering, privatization, and contracting support matters.</i> <hr/>	11	HQ AFCESA provides technical engineering and
	12	privatization expertise and contracting support to AF/ILE,
	13	MAJCOMs, and installations. This support includes, but is
	14	not limited to, the following:
	15	• HQ AFCESA is the responsible office for
	16	controlling the Phase III schedule.
	17	• Reviewing the revalidation for readiness and
	18	unique security requirements.
	19	• Outlining “road maps” for specific projects by
	20	developing Program Management Plans (PMPs)
	21	(Appendix C).
	22	• Executing contract support for program
	23	requirements and project analyses.
	24	• Participating in installation site visits.
	25	• Providing technical guidance and assistance in
	26	preparing and reviewing technical reports,
	27	briefings, and other program documentation.
	28	• Providing advice on utility rates and representing
	29	the Air Force in the rate making process.
	30	• Assisting negotiations of real estate and utility
	31	contracts.
<hr/> <i>HQ AFCEE provides technical and contractual support for environmental matters upon request.</i> <hr/>	32	Headquarters, Air Force Center for Environmental Excellence
	33	HQ AFCEE provides technical and contractual support to
	34	AF/ILE for any required EBS and regulatory compliance
	35	requirements as needed .

SAF/IEIR establishes real property policy and procedures.

USACE and NAVFAC can provide assistance to SAF/IEIR.

SAF/FMB issues budget policy.

SAF/FMC develops evaluation criteria.

Headquarters, Air Force Real Estate Agency

SAF/IEIR acquires, manages, and disposes of all Air Force-controlled real property. Specifically, SAF/IEIR is responsible for the following:

- Obtaining necessary approvals from the SECAF and Congress for all major land disposals.
- Reviewing out-grants regarding the use of Air Force property.
- Overseeing title transfers, deed surveys, and property instruments for major transactions.
- Surveying and disposing of excess land and real property improvements.

In support of SAF/IEIR, the United States Army Corps of Engineers (USACE) or the Naval Facilities Engineering Command (NAVFAC) can assist in the following:

- Preparing the legal survey of the property.
- Preparing an appraisal of the property.
- Assisting in drafting real estate documents.

Department of the Air Force

Deputy Assistant Secretary of the Air Force, Budget

SAF/FMB manages the finances of Air Force-level programs, supports formal OMB scoring negotiations, and provides the MAJCOMs with budget policy and guidance. Additionally, SAF/FMB supports the project execution process with the following responsibilities:

- Reviewing and approving programming documents.
- Providing appropriate Congressional notifications.

Deputy Assistant Secretary of the Air Force, Cost and Economics

SAF/FMC establishes Air Force policy and procedures for economic analyses related to privatization programs, including developing evaluation criteria for Air Force privatization alternatives. SAF/FMC reviews

SAF/AQ coordinates real estate and contracting actions.

1 privatization project submittals to ensure compliance
2 with EA guidelines.

3 **Assistant Secretary of the Air Force, Acquisitions**

4 SAF/AQ is responsible for the following:

- 5 • Providing acquisition policy guidance for all
6 privatization contracts governed by the Federal
7 Acquisition Regulations (FAR).
- 8 • Processing any changes or deviations to the FAR
9 concerning privatization.
- 10 • Coordinating with AF/ILE on privatization policy,
11 procedures, and projects that require both real
12 estate and contracting actions.
- 13 • Designating the Source Selection Authority (SSA)
14 for individual projects.

SAF/IEI approves policy and initiates Congressional reporting.

15 **Deputy Assistant Secretary of the Air Force, Installations**

16 SAF/IEI provides overarching utilities privatization policy
17 guidance, approves and supports utilities privatization
18 projects through the budget process, and initiates required
19 Congressional notifications through SAF/FMB and Office
20 of Legislative Liaison (SAF/LL). Specifically, SAF/IEI is
21 responsible for the following:

- 22 • Approving overall policy for privatization.
- 23 • Approving the business arrangement, or “deal,”
24 before Congressional notification.
- 25 • Approving real property arrangements before
26 award.
- 27 • Reviewing, approving, signing and forwarding
28 project award notifications to the appropriate
29 Congressional committees.
- 30 • Ensuring that interim usage or the transfer of
31 ownership of real property will not interfere with
32 the objective of the Air Force or DoD.

33 **General Counsel**

34 SAF/GCN provides authoritative legal guidance on all
35 legal issues.

1 3.0 Utilities Privatization

2 Process

3 Overview

*This policy and guidance
was designed for use Air
Force-wide.*

4 This section outlines the steps necessary to develop and
5 manage privatization projects from the initial screening of
6 all candidate systems through closeout of all project
7 commitments. It was designed to assist Installation/Wing
8 Commanders and MAJCOM staffs through the process for
9 privatizing designated utility systems Air Force-wide.

10 The utilities privatization process described herein is
11 applicable to projects executed under the authority of 10
12 USC § 2688 (**Appendix B**). Privatization under this
13 authority permits selling DoD utility systems when the
14 SECAF determines it to be in the best interest of the
15 Government.

*Technical guidance is
available from HQ AFCEA.*

16 Once candidate utility systems are identified, the
17 Installation/Wing Commander is responsible for
18 conducting the Feasibility Analysis and submitting a
19 privatization request. Although supporting
20 documentation should be prepared by the installation in
21 accordance with this guide, assistance from the MAJCOM
22 may be requested. Technical guidance is also available
23 from HQ AFCEA, and HQ AFCEE can provide technical
24 assistance on environmental matters. Questions of policy
25 should be directed to AF/ILEXO through the MAJCOM.

*Establish a dedicated
installation privatization
team with command
support.*

26 Privatizing an installation utility system involves
27 communicating and coordinating with other federal
28 agencies, state, tribal, and local governments, regulators,
29 the local community, installation officials, unions, affected
30 employees, HQ USAF, the MAJCOM staff, HQ AFCEA,
31 and HQ AFCEE. Because many resources are required to
32 privatize a utility system, it is of utmost importance to
33 establish a dedicated team of installation experts with
34 command support.

35 Communication should be established early and
36 maintained throughout the process. Contact should be
37 maintained on-installation within the project team and
38 with affected unions and installation employees; off-
39 installation communication should also be maintained

The utilities privatization process can take about two years.

1 with HQ USAF, the MAJCOM, HQ AFCESA, HQ AFCEE,
2 and with the local community. The success of the initiative
3 depends on active leadership and strong support at all
4 levels.

5 Because privatization involves a complex set of variables,
6 the privatization process can take about two years.

7 **Appendix D** is a time-phased representation (Gantt Chart)
8 of the utilities privatization process. Allocating sufficient
9 resources at the start, establishing effective
10 communications, and following the process will allow
11 projects to be delivered efficiently.

12 The privatization process proceeds through the following
13 steps, which are more clearly defined in the remainder of
14 this policy and guidance:

- 15 • Preliminary Screening of Programmed Utility
16 Systems
- 17 • Phase I: Project Plan and Feasibility Analysis
- 18 • Phase II: Comprehensive Analysis
- 19 • Phase III: Final Feasibility, Approval, and
20 Implementation

21 **Preliminary Screening of Programmed Utility** 22 **Systems**

The preliminary screening identifies candidate utility systems.

23 The privatization process begins with a preliminary
24 screening of programmed utility systems to identify
25 privatization candidates. This preliminary screening
26 includes the following:

- 27 • Revalidating that no adverse effects on mission
28 readiness would exempt a utility system from
29 privatization.
- 30 • Revalidating that no unique security requirements
31 would exempt a utility system from privatization.

32 **Phase I: Project Plan and Feasibility Analysis**

Phase I validates the project.

33 Once candidate utility systems are revalidated, the first
34 phase of the privatization process begins. Phase I
35 validates the project and includes the following:

- 36 • Developing a Project Plan

- 1 • Conducting a Utility Requirements Assessment
- 2 • Conducting an Operational Impact and Risk
- 3 Management Analysis
- 4 • Determining the impact of any applicable state and
- 5 local regulation on the process, potential owner,
- 6 and transfer
- 7 • Conducting an Industry Market Analysis
- 8 • Conducting a detailed inventory of the systems
- 9 • Conducting a Preliminary EA
- 10 1. Establishing 50-year status quo cash flow
- 11 – Renewal and replacement costs
- 12 – New construction costs
- 13 – Training cost due to privatization
- 14 – Adjusted operating costs
- 15 2. Establishing 50-year privatization cash flow
- 16 – Estimated purchase price
- 17 – Estimated utility service rates
- 18 3. Performing a life-cycle cost analysis
- 19 – Net present value (NPV) analysis on 50-
- 20 year cash flows
- 21 • Preparing a Feasibility Analysis Report, which
- 22 contains the analyses performed under Phase I and
- 23 justifies continuing on to Phase II or eliminating the
- 24 utility from further consideration
- 25 • Conducting reviews and implementing a “go/no-
- 26 go” decision

27 **Phase II: Comprehensive Analysis**

28 *Phase II defines the terms*
29 *and conditions.*

28 Once Phase I is approved by the MAJCOM, Phase II is
29 initiated. Phase II includes the steps necessary to perform
30 the Comprehensive Analysis, which defines the terms and
31 conditions of the proposed privatization. Phase II also
32 includes developing the Draft RFP. This phase includes
33 the following:

- 1 • Reviewing the Project Plan and Feasibility Analysis
- 2 Report from Phase I
- 3 • Complying with the EIAP
- 4 • Determine if an EBS will be required
- 5 • Developing draft real estate instruments, using
- 6 templates provided by HQ USAF
- 7 • Developing draft transition plans
- 8 • Preparing an Acquisition Plan
- 9 • Preparing a Source Selection Plan (SSP) and
- 10 establishing the Source Selection Evaluation Team
- 11 (SSET)
- 12 • Preparing the Draft RFP, using the templates
- 13 provided by HQ USAF
- 14 • Preparing a Draft Comprehensive Analysis Report
- 15 • Conducting reviews and gaining approvals

16 **Phase III: Final Feasibility, Approval, and**

17 **Implementation**

*Phase III completes the
process.*

- 18 Following review and approval of Phase II plans, Phase III
- 19 of the utilities privatization process completes the process.
- 20 This final phase includes the following:
- 21 • Reviewing the Project Plan, Feasibility Analysis,
 - 22 and Comprehensive Analysis
 - 23 • Finalizing the RFP
 - 24 • Preparing and issuing the FedBizOpps Synopsis for
 - 25 the project
 - 26 • Updating status quo cost developed during Phase I
 - 27 • Issuing the RFP and conducting the site tour
 - 28 • Requesting technical and cost proposals from
 - 29 qualified firms
 - 30 • Conducting a Technical Evaluation Process
 - 31 – Receiving and evaluating technical and cost
 - 32 proposals



- 1 – Holding discussions with offerors
- 2 – Preparing final revised proposals by offerors
- 3 – Reviewing final revised proposals
- 4 • Selecting the successful offeror
- 5 • Preparing a DraftEA
- 6 • Preparing the Certified Economic Analysis (CEA)
- 7 • Finalizing transition plans
- 8 • Finalizing draft real estate instrument(s)
- 9 • Preparing and submitting the project Approval
- 10 Package for SAF/IEI approval and Congressional
- 11 notification
- 12 • Awarding the contract and implementing
- 13 transition
- 14 • Conducting an EBS, if determined necessary in
- 15 phase II or III, to assess the condition of the
- 16 property.
- 17

Preliminary Screening of Programmed Utility Systems

It is anticipated that utility systems initially identified as passing the DRID criteria for readiness and security impacts will be programmed for privatization analysis over the Future Years Defense Plan (FYDP). As these systems are funded for analysis, they will be revalidated to ensure there has not been a change in eligibility during the interim period.

As systems are funded, they will be revalidated to ensure no change in eligibility.

These Air Force programmatic level revalidations are illustrated in **Figure 3.1**.

FIGURE 3.1
Preliminary Screening of Programmed Utility Systems

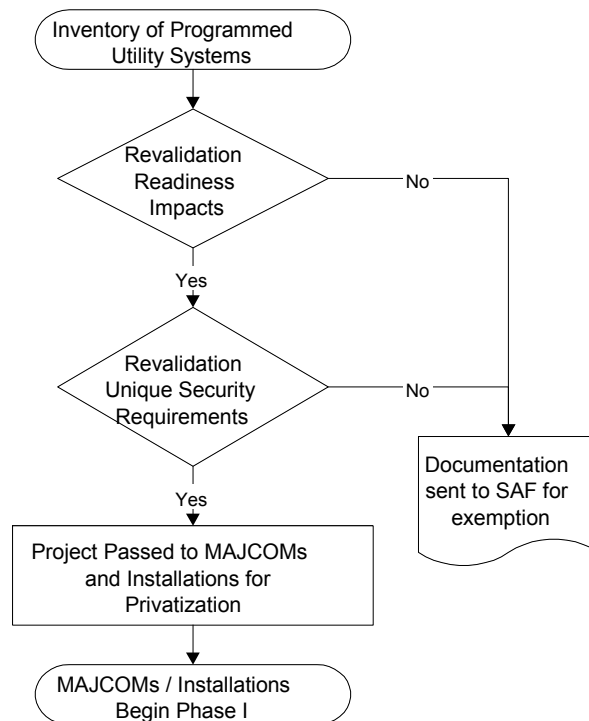


Figure 3.1 Preliminary Screening of all Utility Systems

Readiness Revalidation

HQ USAF performs readiness revalidation. This revalidation includes verifying that privatizing the utility system will have no adverse effect on staffing for contingency operations.

1 **Unique Security Revalidation**

2 Unique security revalidation is performed by HQ USAF.
3 This unique security revalidation includes verifying the
4 following:

- 5 • Ownership of the utility system by a private entity
6 would not impair the installation's mission.
- 7 • Ownership of the utility system by a private entity
8 would not compromise classified operations or
9 property.

10 **Initiate Privatization Process**

11 Utility systems that pass revalidation will continue
12 through the following utilities privatization process:

- 13 • Phase I: Project Plan and Feasibility Analysis
- 14 • Phase II: Comprehensive Analysis
- 15 • Phase III: Final Feasibility, Approval, and
16 Implementation

17 These three phases are the focus of the remainder of this
18 policy and guidance.

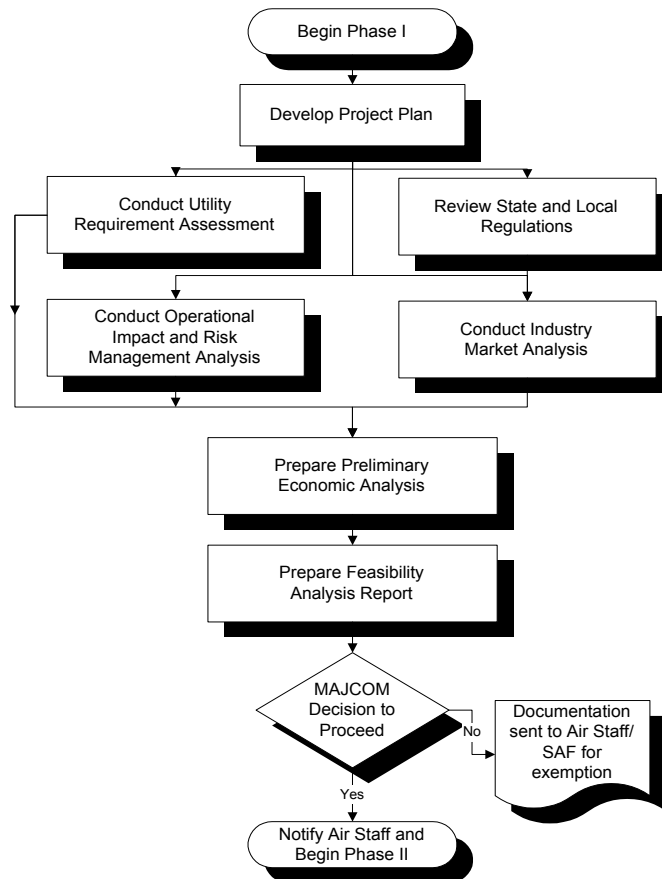
19

The lead for developing the project was the Installation Civil Engineer.

Phase I: Project Plan and Feasibility Analysis

This phase of the utilities privatization process was executed at the installation level, with or without contractor support. Typically, the lead for developing the project was the Installation Civil Engineer under the guidance of the Installation/Wing Commander. Phase I is illustrated by **Figure 3.2**.

FIGURE 3.2
Phase I of the Utilities Privatization Process



Phase I completion was a key decision point for the installation and MAJCOM. The objective of Phase I was to determine that privatization was both viable and economic and that an award would likely be made. If it was determined that, based on the Preliminary EA described herein, the project should not proceed, rationale for this

1 finding was provided via the MAJCOM and AF/ILEXO to
2 SAF/IEI.

3 The following describes each major step in the initial phase
4 of the utilities privatization process.

5 **Project Plan**

6 The Project Plan was the first step and describes the
7 following:

*The Project Plan was the first
step.*

- 8 • Project scope
- 9 • Installation utilities privatization team members
10 and their responsibilities
- 11 • Communications plan with a list of points of
12 contact
- 13 • Project schedule
- 14 • Additional resources, if required, to execute the
15 project

*The Project Plan provides for
360-degree communications.*

16 Establishing the installation utilities privatization team
17 with representatives from real estate, cost and finance,
18 community planning, legal, environmental, engineering,
19 contracting, public affairs, and manpower was of key
20 importance. As part of project planning, it was essential to
21 establish 360-degree communications. Contacts at the
22 MAJCOM, AF/ILEXO, HQ AFCEA, and HQ AFCEE
23 were established to coordinate project development and
24 gain technical and resource assistance.

25 Communication was established with the affected
26 employees and their labor union representatives. The local
27 community was also apprised of the situation at the
28 appropriate level. Typically, elected officials were briefed
29 on the prospect of utilities privatization, its purpose,
30 potential benefits, and impact on their constituents.
31 Regular contact with community leaders and employees
32 provided warning of potential concerns and installed trust.
33 Caution was taken not to divulge information to local
34 officials that also represented local publicly-owned utility
35 concerns when that information was not also available to
36 other potentially interested parties. Local utility
37 companies were not given an unfair advantage, even if
38 only by advance notice, as a result of having special access
39 to information through their local officials.

40 The Project Plan format was outlined in **Appendix E**.

The Utility Requirement Assessment was the basis for the privatization project.

Utility Requirement Assessment

The basis for the utilities privatization project was the installation utility requirement. Utility requirements were assessed to ensure that they were addressed by the utilities privatization project. These requirements were assessed by quantifying the impact of planned construction and mission changes and adjusting the utility requirement appropriately. Provisions for some contingencies were included. Once the utility requirement was known, it was used to determine whether adequate system capacity existed (including room for marginal load growth), excess capacity that might have had some value to the competitors for the system existed, or whether the system could be abandoned and the service provided by existing utilities or other entities off base.

The Operational Impact Analysis used operational risk management processes.

Operational Impact and Risk Management Analysis

The uncertainty associated with utilities privatization created potential operational impacts or hazards to various Air Force missions. The principles outlined in Air Force Pamphlet (AFP) 91-215, Operational Risk Management Implementation and Execution, provided an effective mechanism to identify and choose the optimum course of action for implementing the utilities privatization initiative at both the programmatic and installation levels.

The Air Force Council Privatization IPT specified the operational risk management procedures to conduct a tabletop utilities privatization vulnerability assessment (A copy of this assessment is provided in **Appendix F**). The IPT focused on five major vulnerability categories:

- Readiness
- Security
- Quality and availability
- Installation population
- Government liability

The IPT concluded that sufficient measures were in place to identify the hazards to mission operating capabilities. Additionally, the IPT found that appropriate policies are in place to eliminate unacceptable risk by exempting utility systems from privatization when readiness or “unique security reasons” require Air Force ownership. However,

The proper risk assessment during the planning stages allowed the potential hazards to be identified, the risk assessed, and control measures analyzed.

State and local regulation cannot limit competition.

The Industry Market Analysis determined whether competition was likely.

1 to enhance the mitigation of other risk, the IPT
2 recommended developing standard contract clauses to
3 apply effective control measures and reduce the three
4 components (probability, severity, and exposure) of risk.

5 The privatization process also required a mission-specific
6 Operational Impact Analysis prior to the privatization of
7 any utility system. Risk management decisions made at
8 the appropriate level establish clear accountability.
9 Therefore, it was imperative that those accountable for the
10 success or failure of the mission were included in the risk
11 analysis. With the risk management practices discussed
12 above in place at the programmatic level, the framework
13 was established to apply the principles of operational risk
14 management at the installation. The steps for
15 implementing this evaluation are shown in **Appendix F**.
16 Integrating the proper risk assessment during the planning
17 stages allowed the potential hazards to be identified, the
18 risk assessed, and control measures analyzed. Decision-
19 makers at the appropriate level chose the appropriate
20 controls based on the analysis of overall costs and benefits.
21 When the costs outweighed the benefits, some risk was
22 accepted. Ultimately, the control measures implemented
23 in the real estate instruments and utility service contract
24 will be reflected in the contract cost and the determination
25 of the privatization project's economic viability.

26 **State and Local Regulatory Review**

27 This review determines whether the state's Public Utility
28 Commission, State Corporation Commission, or similar
29 regulatory body has jurisdiction over operating the utility
30 system to be privatized. The DoD has determined that, as
31 a matter of law, there are few if any circumstances where
32 the state will have regulatory authority over the selection
33 of a utility system owner or service provider. If the
34 installation believes it has such a unique situation, it
35 should contact SAF/GCN, through AF/ILEXO, to discuss
36 the matter.

37 **Industry Market Analysis**

38 To determine whether privatizing a particular utility
39 system is feasible, it was necessary to determine if there
40 were potential purchasers in the marketplace. The
41 Industry Market Analysis determined whether there was
42 likely to be competition for the purchase of the utility

1 system. The Industry Market Analysis proceeded as
2 follows:

- 3 1. Contact all local utilities in writing, describing the
4 privatization project and asking for a letter
5 response expressing whether they had any interest
6 in proposing.
- 7 2. Contact other nationally known companies actively
8 engaged in the provision of the utility commodity,
9 describing the privatization project and asking for a
10 letter response expressing whether they had any
11 interest in proposing.
- 12 3. Publish a description of the project and formal
13 Request for Interest (RFI) in the FedBizOpps
14 Synopsis.
- 15 4. Letters of interest alone did not constitute
16 competition. Requests for non-binding business
17 concept proposals from entities demonstrating
18 interest were warranted if they were deemed to be
19 beneficial. Information requested in the non-
20 binding proposal should have included the
21 proposed purchase price, proposed service rates,
22 suggested approaches to renovating the system if
23 required, the estimated cost of the renovation, and
24 the cost to operate, maintain, and renew the
25 existing or renovated system over time.

26 **Preliminary EA**

*The PreliminaryEA
compared status quo cost of
owning and operating the
system versus the
privatization alternative.*

27 The PreliminaryEA compared status quo cost of owning
28 and operating the system versus the privatization
29 alternative. This required developing cash-flow
30 projections for both status quo and privatization and
31 performing a life-cycle cost analysis on both alternatives.

32 **Status Quo Cash-Flow**

33 The components of the status quo cash-flow were defined
34 by renewal and replacement costs, new construction costs,
35 and adjusted current operating costs.

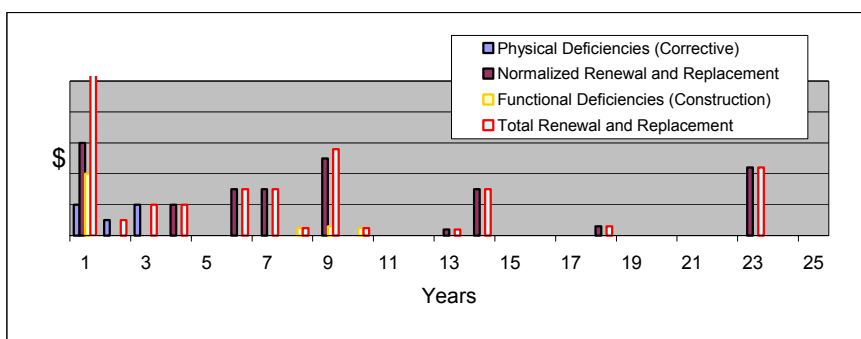
One component of the status quo cash-flow projections was determining capital renewal and replacement costs.

One component of the status quo cash-flow projections was determining initial capital renewal and replacement costs based on the value and age of the existing utility plant. This was accomplished by performing the following:

- Establish an inventory of the utility system
- Perform a facility condition assessment on the inventoried system to include a physical inventory review and spot check to confirm the system and its condition and maintenance and repair backlog. Information was developed so that a facility condition index could be ascribed to each system
- Establish renewal and replacement costs based on the assessment making sure deficiency corrections were not double counted. Status Quo Renewal & Replacement costs were to be shown in the year required.

The renewal and replacement cost analysis was as accurate as possible, however, some engineering judgment was required. Figure 3.3 shows the components of renewal and replacement cash flow.

FIGURE 3.3, Renewal and Replacement Cost Development



Inventory the utility system. An inventory established a list of system assets and determined the cost to replace each asset. If a different configuration or technology was to be used in the replacement, its cost, rather than that for exact replacement of existing facilities, was estimated. The costs of replacing assets were determined by using *Historical Air Force Construction Cost Handbook* supplemented by RS Means® cost-estimating publications.

	1	Life expectancy was taken from manufacturers' literature
	2	or other life-cycle cost publications.
<hr/> <i>The facility condition assessment identified the system's current physical deficiencies that had to be corrected.</i> <hr/>	3	Facility condition assessment. This assessment identified
	4	the system's current physical deficiencies that had to be
	5	corrected to bring the utility system to industry standards.
	6	Assessing the facility condition was accomplished through
	7	conducting a visual inspection of major components,
	8	reviewing maintenance records, reviewing out-of-service
	9	records, and reviewing standard O&M procedures. The
	10	timeline for correcting the deficiencies – which was
	11	determined for each specific utility, deficiency, and
	12	funding constraints – ranged from two to seven years or
	13	more.
<hr/> <i>RCN was used to determine long-term system renewal costs.</i> <hr/>	14	New Construction. Based on the results of the Utility
	15	Requirements Assessment and the regulatory review, the
	16	system's functional deficiencies that required expansion
	17	for future loads or process enhancements to meet expected
	18	changes in regulatory permitting requirements were
	19	identified. New construction costs to meet these
	20	requirements were estimated based on the cost of similar
	21	construction, to include debt service or loan interest
	22	charges, and factored into the cash flow when the
	23	requirement had to be in place. Only construction or
	24	demolition projects that were currently funded were
	25	included in the analysis.
<hr/> <i>Another major contributor to the cash-flow projection were the costs associated with operating the utility.</i> <hr/>	26	Adjusted Current Operating Costs. Another major
	27	contributor to the cash-flow projection was the costs
	28	associated with operating the utility. Operating costs
	29	include operations, maintenance, and general and
	30	administrative costs. Typically, these costs were not
	31	maintained in one set of books at the installation. It was,
	32	therefore, necessary to obtain the information through a
	33	detailed review of financial records kept at the installation
	34	and interviews with key personnel to verify cost data and
	35	to be sure that all costs were included in the overall
	36	estimated cost of service. Financial records on utility
	37	operating costs varied from installation to installation.
<hr/> <i>Adjusted current operating costs include operations, maintenance, and general and administrative costs.</i> <hr/>	38	Once the status quo costs were determined, adjustments
	39	were required based on the results of the facility condition
	40	assessment, Utility Requirements Assessment, and the
	41	regulatory review.
	42	Evaluating the cash-flow projection for O&M included
	43	reviewing the current O&M practices of the status quo to

1 determine if the system was being adequately operated
2 and maintained. This was accomplished by comparing the
3 current O&M practices to industry standards or
4 manufacturer's recommendations for O&M. The status
5 quo costs were adjusted to account for under-funded or
6 inadequate O&M procedures according to the following:

- 7 • Identify and quantify the deficiencies in the current
8 status quo O&M.
- 9 • Develop a factor for increasing the status quo costs
10 to account for proper O&M (e.g., if it was
11 determined that 10 percent of the proper O&M
12 procedures were not being followed, the factor
13 would be 1.1).
- 14 • Multiply the current cash-flow projections for
15 status quo O&M by the correction factor.
- 16 • A-76 MEO labor hours and costs were used as the
17 starting point for determining the Status Quo O&M
18 costs if the base has completed the A-76 process
19 and performed a full year of O&M service. In those
20 cases the MEO labor hours and costs were used as
21 the starting point for Status Quo labor costs if they
22 were clearly identified in the MEO for the utility
23 systems being privatized. Adjustments were made
24 to the labor costs to reflect current AFI 65-503,
25 Table A30-1, Retirement and other Personnel
26 Benefits Acceleration Factors. Other costs in the
27 MEO were used so long as they were clearly
28 identified in the MEO with the utility system being
29 privatized. These other costs were adjusted to
30 reflect the Utility Privatization Policy and Guidance
31 procedures including, but not limited to;
32 adjusting/including all vehicle costs (O&M, fuel,
33 purchased cost of the vehicles, etc.);
34 adjusting/including facility costs (O&M, Real
35 Property Services, construction cost of the facilities,
36 etc.); including supporting utilities and
37 environmental costs; etc. Adjustments to the MEO
38 numbers were made to account for should costs in
39 accordance with Utility Privatization Policy and
40 Guidance."

*RCNLD provides a basis for
an estimated purchase price.*

Privatization Cash-Flow Costs

Privatization cash-flow comprised the estimated purchase price and estimated service rates.

Ultimately, the fair market value of the utility system will be determined by the SECAF during Phase III of the privatization process. However, to perform the PreliminaryEA, an estimated value of the utility system was established and assumed to be the purchase price of the system. Using a similar methodology as that used for developing the renewal and replacement costs provided an estimated purchase price. This similar method used the replacement cost new (RCN) for the inventoried components and applied a factor for depreciation based on the age of each component. This method, commonly referred to as replacement cost new less depreciation (RCNLD), provided a basis for an estimated purchase price. Unless another method for estimating the purchase price was identified through regulatory review, the RCNLD method was used. The estimated purchase price is assumed to reflect the price a privatizing entity would pay the Air Force for the acquisition of the utility assets.

The estimated purchase price of a utility system is highly dependent on many other intangible factors (e.g., demand and location). The estimated purchase price should be adjusted, based on some engineering judgment, to account for these intangible factors. Establishing an estimated purchase price using the RCNLD method, even when adjusted for intangibles, is somewhat subjective. Thoroughly documenting the estimated purchase price development was very important and was performed.

*The estimated service rate
includes only the costs
associated with operating
and maintaining the utility.*

Information collected via the state and local regulatory reviews and the Industry Market Analysis was used to help develop estimated service rates. These estimated service rates were used to project a cash-flow for the privatization alternative. The estimated service rate includes only the costs associated with operating and maintaining the utility system and not the utility commodity itself. In general, the utility commodity cost will be procured directly by the Air Force separately from the privatization action. However, the analysis looked at potential impacts to commodity costs resulting from privatization and “unbundling” service to the installation (assuming it is currently bundled in some fashion). Estimated service rates were developed based on

	1	information obtained through the Industry Market
	2	Analysis and interviews with prospective offerors and
	3	local utilities. Information regarding expected service
	4	rates was not be easily obtained. Under this scenario,
	5	some investigative work was be required to establish
	6	reliable estimates for the service rates in a particular
	7	market. In these cases, developing an estimated rate
	8	required engineering and economic judgment using the
	9	established operating costs and replacements values.
	10	Experts in the respective utility field were consulted to
	11	establish estimated service rates.
	12	Perform Life-Cycle Cost Analysis
<hr/> <i>The life-cycle cost analysis compares projected 50-year cash flows for the status quo and privatization alternatives.</i> <hr/>	13	The life-cycle cost analysis conformed to guidelines
	14	specified in OMB Circular A-94 and AFM 65-506. It
	15	compared projected 50-year cash flows for the status quo
	16	and privatization alternatives using to the following steps:
	17	1. Establish a cash-flow projection for maintaining the
	18	status quo alternative. This cash-flow projection
	19	incorporates costs associated with current operations,
	20	adjusted for underfunded or inadequate O&M, and
	21	renewal and replacement costs. The process for
	22	developing these costs was described above.
	23	2. Establish a cash-flow projection for the assumed
	24	privatization alternative. This cash-flow projection
	25	incorporates costs associated with the sale of the utility
	26	system (estimated purchase price) and the purchase of
	27	utility service from the new owner (estimated service
	28	rates). The process for developing these costs was
	29	described above.
	30	3. Conduct NPV analysis of the status quo and
	31	privatization alternatives to determine the least cost
	32	alternative.
	33	Preliminary economic analyses provided the basis for
	34	making a determination of feasibility for privatization
	35	resulting in a decision to proceed to Phase II of the
	36	privatization process. The preliminaryEA was considered
	37	to have at least an 80 percent confidence rate as it used
	38	best available industry information and engineering
	39	judgment. However, it could not reflect the strategic
	40	business value of these systems that could only be
	41	determined through the solicitation of binding proposals.
	42	Economic feasibility was determined on a system-by-

1 system basis. Unless the preliminaryEA indicated that
2 estimated privatization costs were greater than the
3 government's adjusted status quo costs by 20 percent or
4 more, MAJCOMs proceeded on to Phase II
5 (comprehensive analysis phase) obtaining binding
6 proposals from industry for development of a certifiedEA.
7 The "20% rule" applied only to the *preliminary* economic
8 analyses--*actual* privatization costs indicated by the
9 proposal can not exceed the government's adjusted status
10 quo cost to be determined economically feasible.
11

12 **Feasibility Analysis Report**

13 Once all Phase I analyses and the PreliminaryEA were
14 completed, the Feasibility Analysis Report was assembled
15 and submitted to the MAJCOM and HQ USAF. This
16 report includes all analyses performed to demonstrate the
17 economic viability of the project and recommends
18 continuing on with Phase II of the project or eliminating
19 the utility from further privatization considerations.

20 The Feasibility Analysis Report contains all necessary
21 information required to evaluate the viability of the
22 project. The outline for the Feasibility Analysis Report is
23 provided in **Appendix E**.

24 **Review and "Go/No-Go" Decision**

25 The final decision point in Phase I was whether to commit
26 additional resources to further define the project and
27 develop the RFP. In order to proceed to Phase II,
28 MAJCOM review of the project was obtained, and a
29 "go/no-go" decision made by appropriate base authority.
30 Following that decision, HQ USAF was notified that the
31 project is proceeding to Phase II or that privatization was
32 not feasible.

*Justification for terminating
the process before
competition will be
submitted to SAF/IEI for
approval.*

33 If the Operational Impact and Risk Management Analysis
34 or PreliminaryEA appears to justify maintaining Air Force
35 ownership and operation, the findings were documented
36 and presented to HQ USAF for review. If HQ USAF
37 agreed with this recommendation, AF/ILEXO prepared an
38 Approval Package for SAF/IEI. If HQ USAF did not agree
39 with this recommendation, the recommendation was
40 revised to proceed with Phase II of the privatization
41 process.

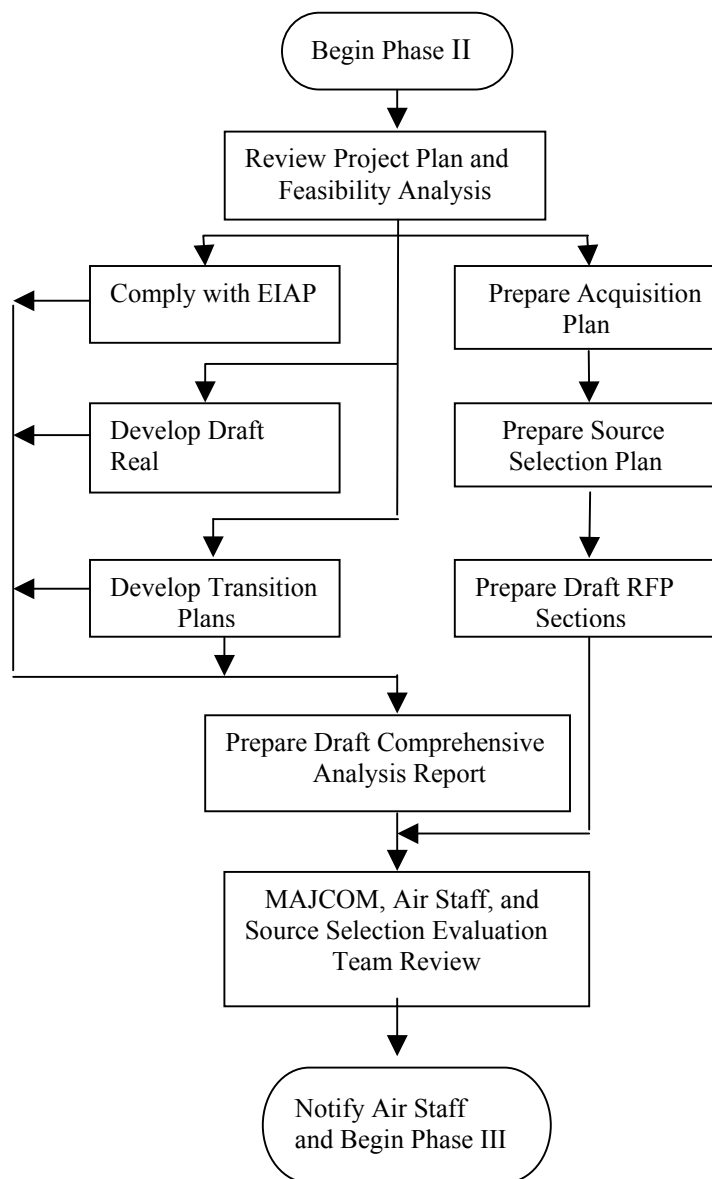
42

Phase II leads to RFP development.

Phase II: Comprehensive Analysis

Once the preliminary feasibility of the project is confirmed, Phase II of the utilities privatization process begins. This phase of the process includes performing any required environmental impact analysis, preparing draft transition plans, preparing property conveyance instruments, developing an Acquisition Plan, preparing an SSP, and drafting the RFP. Phase II is illustrated in **Figure 3.4**.

FIGURE 3.4
Phase II of the Utilities Privatization Process



*The EIAP is the Air Force
process to meet NEPA
requirements.*

*Property transfer
instruments
must be executed
concurrently with the
utility service contract.*

1 Phase II was completed with a detailed review and
2 approval of the Draft Comprehensive Analysis Report,
3 including the draft transition plans, and the Draft RFP.
4 The following describes each major step of Phase II.

5 **Project Plan and Feasibility Analysis Report Review**

6 Based on the findings during the Feasibility Analysis, the
7 Project Plan should be reviewed to ensure budget,
8 schedule, personnel, and points of contact are updated and
9 appropriate.

10 **Environmental Impact Analysis Process**

11 Environmental analysis is required to comply with the
12 National Environmental Policy Act (NEPA) and is
13 performed in accordance with AFI 32-7061.

14 Privatizing utility systems should generally qualify for a
15 categorical exclusion (CATEX). There will also be
16 instances where a CATEX will not apply, in which case an
17 environmental assessment or environmental impact
18 statement (EIS) may be necessary. The detailed
19 procedures for the EIAP are described in AFI 32-7061.

20 **Draft Property Transfer Instruments**

21 There will typically be three documents that define the
22 relationship with the new utility provider:

- 23 • Utility service contract resulting from the
24 solicitation
- 25 • A Bill of Sale describing the property being
26 conveyed, including an inventory of the equipment
27 and structures.
- 28 • A Right-of-Way detailing the new owner's rights
29 relating to access to its utility system and
30 describing the extent of the lands covered by the
31 access rights. The Right-of-Way is an attachment to
32 the RFP.

33 The provisions of the Bill of Sale and the Right-of-Way
34 supercede the provisions of the contract if there is a
35 conflict. This is to help mitigate risk by ensuring that
36 access to the installation, and the operational security it
37 protects, are not inadvertently lost during routine changes
38 in the contract. Additionally, the Bill of Sale is permanent
39 and the term of the Right-of-Way will always be at least as

*Restrictions embedded in
property transfer
instruments
serve to mitigate risk.*

*The Air Force will support
its employees through the
transition process.*

1 long as the contract and may be longer (and is subject to
2 renewal). A signed Right-of-Way must be part of the
3 Offeror's initial bid proposal. These documents must be
4 executed concurrently although the Bill of Sale and the
5 Right-of-Way will not become effective until the contract
6 start date. As a result, if there is any problem with or
7 during transition, actual ownership will not have
8 transferred.

9 Real estate is a highly specialized field, and advice in this
10 area should be sought from HQ AF/ILRE. Use the
11 template Bill of Sale and Right-of-Way provided by HQ
12 USAF. Changes to either of those documents must be
13 approved in advance by SAF/GCN, through AF/ILEXO,
14 as deviations.

15 Draft Transition Plans

16 The following are three key transition plans that should be
17 developed during Phase II so that their requirements can
18 be reflected in the RFP:

- 19 • **Employee Transition Plan.** Planning to mitigate
20 the impact of privatization on the lives of Air Force
21 employees is Air Force policy, and it will
22 significantly increase the prospects for project
23 success. The manpower representative on the
24 project team should determine the potential impact
25 on employees and provide detailed guidance on
26 reduction-in-force procedures if necessary. This
27 information will provide the basis for an Employee
28 Transition Plan. The plan should include the
29 following activities:
 - 30 – Coordinating with the unions representing
31 affected employees as soon as any significant
32 prospect of privatization is identified
 - 33 – Communicating the schedule and conditions
34 for the potential transfer and transition
35 assistance available to affected employees as
36 early as possible in the process and
37 continuously thereafter
 - 38 – Submitting requests for separation incentive
39 and early retirement authorizations
 - 40 – Setting up out-placement and job transition
41 assistance

	1	– Explaining that OMB Circular A-76 does not
	2	apply to utilities privatization
	3	– Addressing employee rights with regard to
	4	employment with the new owner
	5	• Operational Transition Plan. Once the Air Force
	6	has determined which elements are essential, the
<i>An Operational Transition</i>	7	RFP should require a contractor-developed
<i>Plan should be a required</i>	8	Operational Transition Plan that addresses each
<i>part of the offeror's technical</i>	9	element of operational transfer as part of the
<i>proposal.</i>	10	technical proposal. It is important that a
	11	cooperative spirit be demonstrated between the
	12	system's current and future owners and operators.
	13	A plan with well-communicated procedures and
	14	expectations will help ensure a smooth
	15	operational transition. The Operational Transition
	16	Plan should include the following activities:
	17	– Scheduling transfer of system O&M, including
	18	a period of joint operation or on-site training for
	19	new employees and supervisors
	20	– Scheduling construction or installation of any
	21	connection requirements, such as meters,
	22	pipelines, feeders, switch gear, and
	23	transformers, and any associated outages
	24	– Transferring or modifying environmental
	25	permits, if appropriate (often takes six months
	26	or more)
	27	– Conducting joint inventories of personal
	28	property to be transferred, such as special tools,
	29	equipment, and spare parts
	30	– Providing operations manuals and maintenance
	31	records
	32	– Recording initial meter readings for billing
	33	purposes
<i>The Post-Award</i>	34	• Post-Award Project Management Plan. Most of
<i>Management Plan falls</i>	35	this work will fall under the authority of the
<i>under the authority of the</i>	36	Contracting Officer as part of the acquisition
<i>Contracting Officer.</i>	37	strategy, but it should include establishing a Post-
	38	Award Project Management Team, which will be
	39	responsible for the following:

- 1 – Providing quality assurance/quality control
- 2 (QA/QC)
- 3 – Serving as a customer relations liaison
- 4 – Assessing contractor performance annually or
- 5 more frequently if required by the contract
- 6 – Verifying services received
- 7 – Processing payments
- 8 – Determining when the contract requirements
- 9 are met for the purpose of financial close-out

10 Note that under privatization, plant ownership will be
11 transferred to the successful offeror who may or may not
12 be regulated. Any terms and conditions ensuring that the
13 Air Force's interests are protected must be included in the
14 property transfer instruments or in the contract. The Post-
15 Award Project Management Plan must ensure that
16 contract and Right-of-Way conditions are met.

17 **Acquisition Plan**

18 Using the uniform templates provided by HQ USAF, the
19 Installation Contracting Officer is responsible for
20 completing development of the contract vehicle, which
21 will procure utility services after privatization, and
22 establish the long-term relationship of the utility provider
23 so that potential privatization concerns can be mitigated.

24 The following briefly outlines the acquisition strategy for
25 the benefit of the utilities privatization process participants
26 who may be unfamiliar with it.

27 The privatization acquisition strategy should be a best-
28 value source selection made in accordance with Air Force
29 Federal Acquisition Regulation Supplement (AFFARS),
30 Part 15, from proposals that first demonstrate economic
31 savings to the Air Force in their respective proposals. This
32 meets the requirements of 10 USC § 2688 for lower long-
33 term costs. Since 10 USC § 2688 requires the privatization
34 be economical in accordance with the terms of the statute,
35 no award may be made that will not meet the
36 requirements of the EA required to be sent to Congress.
37 Once the SSET identifies those offerors that appear to meet
38 that economic test, an award may then be based on best
39 value. There is no requirement to award to the best price.
40 The Contracting Officer must prepare an Acquisition Plan
41 that describes the acquisition strategy.

*The acquisition strategy for
utilities privatization should
be a best-value source
selection made in accordance
with , AFFARS Part 15.*

*The Acquisition Plan should
be developed in accordance
with FAR Part 7.105.*

1 The Acquisition Plan should be developed in accordance
2 with FAR Part 7.105, Acquisition Planning. Considering
3 all aspects of the planning and acquisition process, the
4 Acquisition Plan should address the following. The list
5 below is not all inclusive. Refer to FAR Part 7.105 for
6 specific areas of the acquisition plan.

- 7
- 8 • **Statement of Need.** Present a statement of need
9 that summarizes the purpose for the acquisition
10 and feasible alternatives to the acquisition. See RFP
11 template.
 - 12 • **Applicable Conditions.** State the requirements for
13 compatibility with existing and future programs,
14 including the Housing Privatization Program,
15 discuss method of conveyance of property, and
16 discuss applicable installation specific requirements
17 that should be reflected in the property transfer
18 instruments. See RFP template.
 - 19 • **Cost.** State the cost goals of the acquisition, discuss
20 how life-cycle cost will be considered, and discuss
21 how should-cost figures into the acquisition.
 - 22 • **Performance.** State the performance objectives of
23 the acquisition, and discuss how privatization will
24 affect utility service performance to the end users.
 - 25 • **Contract Type.** State the contracting type and
26 method that will be used and how goals and
27 objectives of privatization will be achieved. See
28 RFP template.
 - 29 • **Risks.** Discuss technical, cost, and schedule risks
30 that are involved with privatization, and describe
31 what efforts will mitigate the risk.
 - 32 • **Competition.** Discuss how competition will be
33 sought, promoted, and sustained throughout the
34 acquisition process, and discuss incentives and
35 disincentives that should be considered for the
36 RFP.
 - 37 • **Logistics Considerations.** Discuss the reliability,
38 maintainability, and QA issues that will be
39 required by the RFP. A Post-Award Management
40 Plan should be required to address these issues as
41 part of the RFP. See RFP template.

*The SSP is a key document
in conducting source
selection.*

- 1 • **Milestones.** Present the acquisition strategy and
2 steps to achieving contract award. Special
3 consideration should be given to providing the
4 offerors sufficient time to develop quality offers
5 even if that means longer than usual proposal
6 periods. Because of the length of the contract
7 period and the extreme complexity of the action, it
8 is highly desirable to receive the best offers we can,
9 even if that requires more investment of time at the
10 start.

11 The Final Acquisition Plan will be a comprehensive plan
12 that fulfills the Air Force needs in a timely and cost-
13 effective manner and contains the overall strategy for
14 managing the acquisition process. The overall strategy
15 presented in the Acquisition Plan will precipitate the
16 individual requirements in the RFP. If an issue is
17 important, identify it in the Acquisition Plan and RFP and
18 require that it be specifically addressed in the technical
19 proposal prepared by the offeror.

20 **Source Selection Plan**

21 A Source Selection Plan (SSP) is required. The SSP, a key
22 document in conducting source selection, should be jointly
23 developed by contracting personnel and personnel
24 responsible for the requirement. For privatization projects,
25 the Divestiture Authority has been delegated to SAF/IEI,
26 but the SSA for the utility services contract has been
27 delegated in accordance with FAR contract value
28 standards. Because of this, the Divestiture Authority and
29 the SSA will almost certainly not be the same person.
30 Since the acquisition of utility services contract cannot take
31 place without the sale of the system, the decision by the
32 Source Selection Authority to award or not must be
33 supported by the Divestiture Authority's decision to sign
34 the real estate documents. Nevertheless, the SSA should
35 proceed as though this were a typical acquisition, with the
36 understanding that contract award cannot occur without
37 concurrence by SAF/IEI.

38 The SSP must be submitted sufficiently in advance of the
39 planned acquisition to facilitate review and approval by
40 the SSA and establishment of the source selection
41 organization. Any revisions to the SSP must be submitted
42 for review and approval by the SSA. The SSP should
43 contain the following:

Evaluation criteria should be exactly duplicated in Section M of the RFP.

- 1 • **Introduction.** This briefly describes what is being
2 acquired and the goals and objectives of the
3 acquisition.
- 4 • **Source Selection Organization.** This section
5 describes the SSA and SSET organizations
6 (including Government and non-Government
7 advisors). Key members must be identified by
8 name, organization, and position title. Use of non-
9 Government advisors shall conform to AFFARS
10 5315.303-90 (g).
- 11 • **Proposed Pre-Solicitation Activities.** This section
12 describes the Utilities Market Survey and how it
13 was used to develop competition. It describes the
14 steps that will be used to qualify offerors.
- 15 • **Evaluation Procedures.** This section describes the
16 process that will be used by the SSET to evaluate
17 offerors proposals. This discussion should center
18 on developing status quo costs and the EA process.
- 19 • **Evaluation Criteria.** This section should describe
20 the cost criterion and specific criteria, including
21 factors and, when appropriate, subfactors, and
22 elements. This information should be exactly
23 duplicated in Section M of the RFP. This section
24 should also describe the assessment criteria and
25 how they apply to the evaluation. The evaluation
26 will be based upon four factors: Cost or price, Past
27 Performance, Mission Capability, and Proposal
28 Risk. Section M of the RFP shall describe the
29 evaluation factors and their relative order of
30 importance. Of paramount importance is the
31 financial capability of the offeror. Evaluation
32 should be of the offeror itself, not of affiliated
33 companies that cannot be held legally responsible
34 for the offeror's obligations. Be particularly
35 cautious of an offeror that has created a "shell"
36 company to make its offer in order to avoid liability
37 to the parent entity. Any assurances from an
38 offeror that its parent or affiliated company will
39 financially support the offeror should be carefully
40 examined to ensure there is an unbreakable legal
41 commitment that the Air Force can enforce should
42 the offeror fail to perform. The unsupported and
43 unanalyzed assurances of the offeror should never
44 be accepted without independent confirmation.

1 Finally, this section describes general
2 considerations and how they relate to the
3 evaluation of the offeror's proposal. See RFP
4 template.

- 5 • **Acquisition Strategy.** The SSP summarizes the
6 Acquisition Plan, including the contract type
7 proposed, incentives, disincentives, special contract
8 clauses, and other elements reflective of the
9 Acquisition Plan.
- 10 • **Schedule of events.** This schedule identifies and
11 establishes the schedule for significant source
12 selection activities in sufficient detail to allow the
13 reviewing authorities to assess the practicality of
14 the schedule. AFFARS Part 5315 provides
15 guidance on source selection events. The Phase III
16 schedule provided in Appendix D will be used to
17 develop the source selection schedule. The source
18 selection schedule will support the OSD milestone
19 dates.

20 **Draft Request for Proposal**

21 USAF is using a standard template for utility privatization.
22 Use the appropriate standard RFP template with its
23 attachments provided by HQ USAF. HQ USAF has
24 prepared two standard templates: competitive and sole
25 source. For Reserve Components located on leased
26 property, there are special provisions provided,
27 particularly in the property transfer instruments, dealing
28 with circumstances peculiar to them. For standard
29 template changes, the installation must request a deviation
30 from HQ USAF. Requests for deviations are forwarded
31 through the MAJCOM to HQ AFCEA/CEOC. AFCEA
32 will forward requests to AF/ILEXO who will serve as the
33 focal point for Air Staff coordination. Each deviation
34 request must include a detailed statement of the deviation
35 requested and an explanation of the need for the deviation.

- 36 • Where the DESC is providing contracting support,
37 the DESC version of the Air Force templates will be
38 used. Preparing the Draft RFP is the responsibility
39 of the Contracting Officer.

1 **Draft Comprehensive Analysis Report**

2 At this point, the Draft Comprehensive Analysis Report
3 should be prepared. The Draft Comprehensive Analysis
4 Report should contain all data and analyses performed
5 during the Phase II process and summarize the Phase I
6 process. An outline of the Comprehensive Analysis Report
7 is provided in **Appendix E**.

8 **Presentation and Approval**

9 The Draft RFP and Draft Comprehensive Analysis Report
10 are approved by the installation. The SSA will approve the
11 RFP before it can be issued.

The SSA approves the RFP.

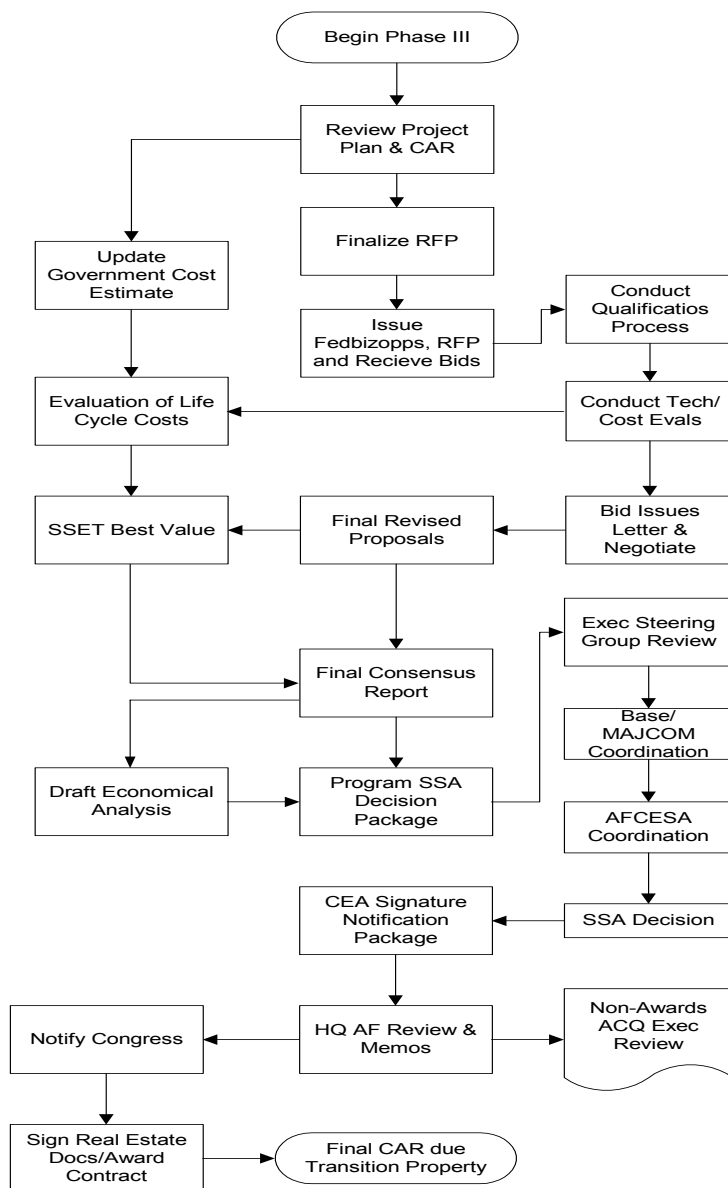
12

Phase III is focused on the acquisition process.

Phase III: Final Feasibility, Approval, and Implementation

This last phase is focused on completing the acquisition, assessing the value of the contractor proposals, gaining HQ USAF approval, notifying Congress, awarding the project, and implementing the transition.

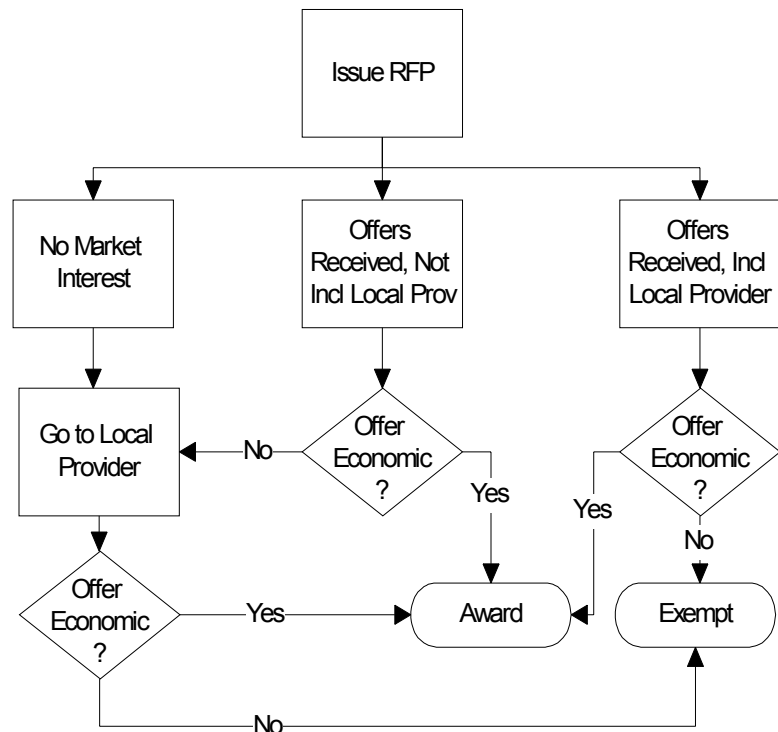
FIGURE 3.5: PHASE III OF THE UTILITIES PRIVATIZATION PROCESS



Final feasibility of the project will depend on the proposals received.

The proposals received will determine the final feasibility of the project. After the RFP is issued, several scenarios may occur, depending on whether the local provider responded to the RFP or not. The following chart illustrates the steps that should be taken to ensure the local provider has been contacted and afforded the opportunity to respond:

Figure 3.6: Inclusion of Local Provider in Phase III UP



The law requires that before the award is made, the Air Force will benefit. This requires a CEA, concurrence of the proposed action by SAF/IEI, and notification to Congress. During Phase III, the final decision regarding awarding the contract and transferring the utility system is made. Phase III also includes finalizing the Post-Award Transition Plan to properly transfer the privatized utility. The major steps of Phase III are discussed below.

Reviewing Project Plan and Comprehensive Analysis

Based on the findings of the Comprehensive Analysis, a cursory review of the Project Plan should be conducted to

	1 ensure budget, schedule, personnel, and points of contact
	2 are updated and appropriate.
	3 For those systems with little or no market value due to age
	4 and or physical condition, and are ready for near future
	5 replacement and are partially owned by the utility
	6 provider, the CO may consider other contracting methods
	7 to divest the utility such as use of the GSA Areawide
	8 contract or sole source.
	9 Finalizing the RFP
	10 After the Draft RFP is prepared, approved changes are
	11 incorporated into the appropriate sections of the RFP, and
	12 all sections to be included in the Final RFP are completed.
<hr/> Make all available technical information available to offerors. <hr/>	13 It will be beneficial to provide site tours and open a
	14 technical library related to the utility system so that
	15 available information is provided to all interested parties
	16 as early in the privatization process as possible. If a
	17 technical library is not established before the RFP is issued,
	18 it should be immediately afterward. This will allow
	19 offerors the maximum time possible to develop their
	20 proposals. Sufficient time should be permitted in the RFP
	21 for the offerors to conduct the level of due diligence both
	22 parties would want before entering into a permanent
	23 relationship. Advanced RFIs in the privatization process
	24 along with access to technical information in a central
	25 library can help accelerate the time from RFP to proposal.
	26 The Air Force Contracting Officer is responsible for the
	27 final assembly of the RFP, which will include all sections of
	28 the RFP.
	29 Preparing and Issuing the Commerce Business Daily
	30 Announcement
<hr/> A goal of the acquisition process is maximum competition. <hr/>	31 A principal goal of this activity is generating the maximum
	32 competition among qualified entities. This is
	33 accomplished by announcing the solicitation in the
	34 <i>FedBizOpps Synopsis</i> , national newspapers, and trade
	35 journals to get as broad a dissemination as possible. The
	36 <i>FedBizOpps Synopsis</i> should describe the project and
	37 qualification process that will be implemented. The
	38 <i>Synopsis</i> should provide logistic information regarding
	39 when, where, and how to request the RFP.

The site tour is a critical step in helping the offerors prepare their proposals.

1 **Issuing the Request for Proposal and Site Tour**

2 The restart SOW for non-pathfinder bases will include A-E
3 deliverables of the updated “Cost Analysis” using the AF
4 CEA Model, Government Cost Estimate (GCE) Model,
5 and GCE supporting Data Template. The initial delivery
6 will occur prior to RFP release. The entire RFP is issued to
7 all entities responding to the *FedBizOpps Synopsis*.
8 Additional RFPs will also be issued subsequent to the
9 initial issuance upon request to the Contracting Officer.
10 Approximately two weeks after issuing the RFP, the
11 Contracting Officer should conduct a site tour beginning
12 with a pre-proposal conference for potential offerors. This
13 site tour is a critical step in preparing the offerors’
14 proposals. The site tour should provide insight into the
15 physical condition of the system, O&M practices, and
16 overall effectiveness of the system to provide quality
17 service to the Air Force. The Installation Civil Engineer
18 should attend the site tour to provide technical
19 information about the system and answer questions
20 related to its operation and condition. Following the site
21 tour, a timeframe is established in which prospective
22 offerors are allowed to submit questions in writing. Air
23 Force responses to the questions must be provided to all
24 participants involved in the procurement. If warranted,
25 the Contracting Officer will prepare and issue responses as
26 amendments to the RFP. The process of responding to
27 offeror questions cannot be used to circumvent the
28 requirement to obtain HQ USAF approval for deviations to
29 the RFP and its attachments. The Contracting Officer
30 should be extremely cautious in answering questions from
31 offerors in order not to create conflicts with provisions in
32 the uniform Air Force RFP and the property transfer
33 instruments. If uncertain, seek assistance from experts at
34 HQ USAF.

Select the proposal that meets the economic criteria of 10 USC § 2688 and offers the best value to the Air Force.

35 **Conducting the Technical Evaluation Process**

36 The Technical Evaluation Process begins with a request
37 for, and acceptance of, separate technical and cost
38 proposals from qualified offerors. The Government will
39 accept proposals up to the stipulated time and date,
40 evaluate the technical proposals, hold discussions with
41 offerors, secure final revised proposals, and select the
42 proposal that meets the economic criteria of 10 USC § 2688
43 and offers the best value to the Air Force.

1 Due diligence visits are funded and conducted by the
2 MAJCOM. The visits should be conducted following
3 negotiations with the offerors and during preparation of
4 their final offers.

5 The Integrated Data System (IDS) automated source
6 selection tool is available as an option for use in the source
7 selection process.

8 IDS training to the SSET should occur prior to receipt of
9 the proposals.

10 **Receiving and Evaluating Proposals**

11 Proposals will only be accepted up to the time indicated by
12 the instructions to offerors (Section L) or subsequent
13 change through an amendment issued by the Contracting
14 Officer. Once the Contracting Officer receives the
15 proposals and has determined they meet the submission
16 requirements, the SSET is provided the technical and cost
17 portions of the proposals to evaluate against the evaluation
18 criteria (Section M).

19 The SSET evaluates the proposals to qualify the offerors in
20 terms of providing quality service to the Air Force. This
21 evaluation must be objective and solely based on the
22 evaluation criteria. Subjective evaluation could lead to
23 protest following the award of the project. AFFARS, Part
24 15 provides guidance on performing technical evaluations
25 of proposals and determining the competitive range. The
26 SSET will use the life-cycle cost analysis model provided
27 by AFCESA for each proposal. Life-cycle cost analysis will
28 be based on the offerors proposal and updated status quo
29 costs discussed below. This model analysis will identify
30 proposals offering cost savings and support holding
31 discussions with offerors.

32 **Holding Discussions and Making Requests for Final Revised 33 Proposal**

34 Once the SSET has determined, based on evaluation
35 criteria, a list of qualified offerors in the competitive range,
36 the Contracting Officer may initiate discussions with those
37 entities in accordance with AFFARS, Part 15 to resolve any
38 questions or deficiencies. These discussions should lead to
39 preparing and submitting final revised proposals.

1 MAJCOMs will provide guidance to the Base and ensure
2 that offerors are allowed access to those utility systems for
3 which they are preparing revised proposals.

4 **Reviewing the Final Revised Proposal & Initiating** 5 **the Selection Process**

6 After receiving the final revised proposals by the offerors,
7 the SSET evaluates the proposals to determine which
8 proposals offer the “best value” (quality and cost trade-
9 off).

10 The terms of these final revised proposals will be input
11 into the economic model used in the EA to compare the Air
12 Force’s costs. This information will be used in the overall
13 source selection process to select a provider. AFFARS,
14 Part 15 describes the process for documenting the
15 evaluation process of the final revised proposals.

16 **Updating Status Quo Costs (Including Major** 17 **ANG Installations)**

18
19 The status quo cost shall be updated based on the
20 following process:

21
22 All cost will be escalated to a common Fiscal Year
23 using the Gross Domestic Product (GDP) deflator
24 (Chained Price Index) (available from
25 <http://w3.access.gpo.gov/usbudget/> go to the “FY XXXX
26 Budget” then “Historical Tables”, then “Section 10”). The
27 GDP deflator for years beyond those already calculated
28 shall be assumed to increase at the same rate as the last
29 year in the table.

30
31 Costs of privatization do not start until the final source
32 selection has been made and the service contract is signed.
33 All costs before that date are sunk costs and not part of the
34 analysis.

35
36 Gather updated data from the base on the current
37 inventory and adjustments to the status quo costs.

- 38
39
 - Perform a facility condition assessment on the
40 inventoried system to include a physical inventory
41 review and spot check to confirm the system and
42 its condition and maintenance and repair backlog;
43 information should be developed so that a facility

condition index can be ascribed to each system.

- **Replacement Cost New.** Determine RCN based on the updated inventory using the HQ AFCESA component cost database, Area Cost Factors, and government markups (5% for contingencies; 5.7% Continental US and 6.5% everywhere else for SIOH; and 10% for Design). Replacement Cost New will be estimated based on what it would cost to install the component today using current materials (e.g. polyethylene pipe versus black steel pipe) assuming a green field site (no roads, sidewalks, etc.).
- **Replacement Cost New Less Depreciation.** Determine RCNLD based on remaining useful life. Useful life based on HQ AFCESA component life database adjusted by the facility condition assessment.
- **Book Value.** Determine Original Cost New Less Depreciation (OCNLD) or Book Value by deescalating RCN back to the installation date of each component using current GDP deflator and depreciating the components based on remaining useful life. Useful life will be based on HQ AFCESA component life database adjusted by the facility condition assessment.
- **Deficiencies.** Identify and cost Physical and Functional deficiencies.
 - **Physical Deficiencies.** The facility condition assessment will identify the system's current physical deficiencies that must be corrected to bring the utility system to industry standards or correct physical deterioration. The timeline for amortizing the deficiency corrections which will be determined for each specific utility, deficiency, and funding constraints – could range from two to seven years or more. Overdue renewals and replacements will be covered under Renewal and Replacement costs and not as deficiencies. Specific Industry standards not met or physical deterioration being corrected will be cited in the

documentation for each deficiency. Area Cost Factors, and government markups (10% for contingencies; 5.7% Continental US and 6.5% everywhere else for SIOH; and 10% for Design) apply.

- **Functional Deficiencies.** The system’s functional deficiencies that will require expansion for future loads or process enhancements to meet expected changes in regulatory permitting requirements will be identified. New construction costs to meet these requirements should be estimated based on the HQ AFCESA component cost database and factored into the cash flow when the requirement must be in place. Specific justification for each functional deficiency will be cited in the documentation. Future load requirements will only cover funded projects (i.e. FY2000 Dormitory Project). Area Cost Factors, and government markups (5% contingencies for new projects or 10% contingencies for replacement projects; 5.7% Continental US and 6.5% everywhere else for SIOH; and 10% for Design) apply.

- **Renewals and Replacements (R&R).** Identify and cost R&R. If a different configuration or technology would be used in the replacement, its cost, rather than that for exact replacement of existing facilities, should be estimated. Additionally, R&R shall include costs for cuts and patches to other facilities (roads, sidewalks, etc.) and cost for connections to components not being replaced that may be required to replace the components. Use the HQ AFCESA component cost and life expectancy database along with the facility condition assessment to determine costs and replacement cycles. Coordinate R&R projects with deficiencies so not to double count replacements. Area Cost Factors, and government markups (10% for contingencies; 5.7% Continental US and 6.5% everywhere else for SIOH; and 10% for Design) apply.

- **Status Quo Costs.** Determine the Status Quo

1 Operations and Maintenance costs based on the
2 procedures in Appendix J. The government
3 insurance portion of the Status Quo Costs is
4 calculated as shown below.

5
6 • **Government Insurance Costs.**

7 The government insurance cost will be calculated
8 using the procedures in OMB Circular A-76
9 Revised Supplemental Handbook, Part II, Chapter
10 2, paragraph D.7. The Net Book Value of the utility
11 system, vehicles, equipment, and facilities is
12 calculated by taking 50% of the Replacement Cost
13 New. Add the average monthly value of materials
14 and supplies to the net book value of the system,
15 vehicles, equipment, and facilities and then
16 multiply this total by 0.5% to determine the
17 casualty portion of insurance. The liability portion
18 of insurance will be calculated by multiplying the
19 labor costs times 0.7%. Insurance is calculated for
20 both the Unadjusted Status Quo Costs as well as for
21 the Adjustments to the Status Quo Costs.

22
23 • **Determine Government Privatized Costs.**

24 Government Privatized Costs include Contract
25 Administration, Price Redetermination
26 Negotiations, Transition Costs, Training Costs,
27 Reduction in Bids for Taxes, and any other costs
28 incurred by the Government due to the
29 privatization effort after the contract is signed.

- 30
31 • **Contract Administration.** 5% of the privatized
32 total cost up to \$100,000 is the total installation cost
33 for contract administration including all G&A cost.

- 34
35 • **Price Redetermination Negotiations.** For systems
36 with a Privatized O&M cost of less than \$100,000
37 per year, add \$2500 every 3 years.

38
39 For systems with a Privatized O&M cost greater
40 than \$100,000 per year (FY2002\$), add 5.4% of the
41 Privatized O&M every 3 years.

- 42
43 • **Transition Costs consist of Operations Transfer
44 and Personnel Costs.** Operational Transfer and
45 Personnel Displacement costs shall be calculated as
46 10% of the Unadjusted Status Quo O&M labor cost

up to \$50,000.

- **Training Costs.** Include any additional costs for training required because of privatization such as the construction of training mock-ups. Personnel manpower costs are not part of this cost because they are excluded from the Status Quo costs. Only extra costs such as TDY cost to a different location to get training will be included. Privatization contractor costs will be included in their bids.

Taxes. If the bidder pays Federal Taxes, including Contribution in Aid of Construction, they will be subtracted from the Privatized cost in the economic analysis. The taxes paid will be identified in the offeror's proposal.

- **Other Government Costs.** Document and certify any other costs of privatization not included in the above categories.

The updated Status Quo costs will be prepared using the AF CEA Model, GCE Model, and GCE Supporting Data Template.

This should be performed and finalized with the base and Command before proposals are submitted.

Updating Status Quo Costs for Minor ANG Installations

A different approach towards establishing some status quo costs at minor ANG installations was developed because of their size and unique nature. Minor ANG installations do not use the WIMS database for tracking facilities/utilities maintenance activities. This has resulted in difficulty in establishing accurate O&M costs for minor systems.

O&M costs will be derived using a percentage of the RCN value of each system. These percentages were derived statistically, for each type of system, from feasibility analysis reports that were previously accomplished on a number of minor ANG installations. The ANG Utilities Privatization Process Manual details the process.

1 **Cost Analysis for SSET Information**

2

3 **Quantify and Forecast the Full Cost of Service for** 4 **the Status Quo Alternative.**

5

6 The updated adjusted status quo costs, established earlier
7 in Phase III, are used to develop a cash-flow projection for
8 keeping the service in-house. This adjusted status quo
9 cash-flow projection should account for all O&M costs
10 (adjuncted as appropriate), renewal and replacement costs,
11 known deficiency construction required for increased
12 utility requirements, and known deficiency upgrades
13 required to maintain compliance with state and/or local
14 regulations. The cash-flow projection should be developed
15 using the AF CEA Model. Interim A-E analyses
16 deliverables to support the SSA decision and award will
17 also be identified.

18

19 **Quantify the Cost of Service from Received Proposals for** 20 **the Privatization Alternative.**

21

22 Proposals will be evaluated in terms of purchase price and
23 service fees. Projected cash flows will be prepared based
24 on the proposed acquisition price and service fees. Cash-
25 flow projection for the privatization alternative is
26 determined from data contained in Section B and Section L
27 Schedules of the offerors' proposal. This data is entered in
28 the AF CEA Model in order to determine if the proposal is
29 less cost to the government. Best and Final proposals that
30 do not meet the requirement to be less cost to the
31 government will not be considered.

32

33 The cost analysis will consist of cash flow equal to the
34 number of years in the service contract of both the status
35 quo and privatization alternative and comparison of the
36 present value of each. Status quo costs will include capital
37 costs and annual operating costs such as O&M, general and
38 administration (G&A), and Insurance costs. Capital costs
39 cover deficiency correction costs and renewals and
40 replacements. Privatized costs will include the rate
41 charged to the Air Force for utility service by the new
42 owner plus the Air Force's own management costs
43 (contract administration) to oversee the new owner's
44 operation.

45

*A DraftEA will be performed
based on the selected
industry proposals to
determine if privatization is
economical.*

Preparing the DraftEA for Review

Once the SSET has recommended a best-value proposal, a DraftEA must be prepared to:

Assure that the privatization alternative will result in long-term costs that are less than the adjusted status quo costs.

Conform to guidelines specified in OMB Circular A-94

Conform to guidelines specified in AFM 65-506 and procedures in AFI 65-501.

Document the life-cycle cost and the benefits associated with the adjusted status quo and with privatization. A qualitative analysis of benefits should be documented by the SSET.

Show estimates of the OCNLD and the RCNLD of the utility system as well as the Fair Market Value from the recommended proposal.

This analysis should be limited to comparison of the recommended proposal with the adjusted status quo.

The projected cash flows should be prepared according to the following:

Quantify and forecast the full cost of service for the adjusted status quo.

Quantify the cost of service from the recommended proposal.

Conduct life cycle cost analysis using the AF CEA Model.

The DraftEA must be reviewed following AFI 65-501 procedures for certification.

The Base Civil Engineer signature is required on the CEA. Therefore, the BCE should be involved in the early development of the Draft EA.

	<p>1 Quantify and Forecast the Full Cost of Service for the Status Quo Alternative</p> <p>2</p> <p>3 The updated status quo costs, established earlier in Phase</p> <p>4 III, are used to develop a cash-flow projection for keeping</p> <p>5 the service in-house to the Air Force. This status quo cash-</p> <p>6 flow projection should account for all O&M costs (adjusted</p> <p>7 as appropriate), renewal and replacement costs, known</p> <p>8 MILCON construction required for increased utility</p> <p>9 requirements, and known upgrades required to maintain</p> <p>10 compliance with state and/or local regulations. The cash-</p> <p>11 flow projection should be developed in the same manner</p> <p>12 as was used during the PreliminaryEA of Phase I.</p>
<hr/> <p><i>Privatization cost will be determined from actual proposals.</i></p> <hr/>	<p>13 Quantify the Cost of Service from Received Proposals for the Privatization Alternative</p> <p>14</p> <p>15 Proposals will be evaluated in terms of purchase price and</p> <p>16 service fees. Those proposals that contain terms that are</p> <p>17 obviously not competitive will be eliminated from further</p> <p>18 consideration. For those proposals that remain, projected</p> <p>19 cash flows will be prepared based on the proposed</p> <p>20 acquisition price and service fees. This projection should</p> <p>21 be based on the utility requirements identified in Phase I</p> <p>22 and refined in Phase II.</p> <p>23 Cash-flow projection for the privatization alternative is</p> <p>24 determined from data contained in Section B of the</p> <p>25 offerors' proposal.</p>
<hr/> <p><i>Fair market value will be approved by SAF/IEI.</i></p> <hr/>	<p>26 SAF/IEI Establish Fair Market Value</p> <p>27 The fair market value of the utility system will be</p> <p>28 approved by SAF/IEI.</p>
<hr/> <p><i>AFM 65-506 is the guide for life-cycle cost analysis.</i></p> <hr/>	<p>29 Conduct Life-Cycle Cost Analysis</p> <p>30 Life cycle cost analysis associated with the status quo and</p> <p>31 privatization alternatives for which detailed cash flows</p> <p>32 were developed must be performed in a manner consistent</p> <p>33 with guidelines included in AFM 65-506.</p> <p>34 As described above, the DraftEA should be prepared</p> <p>35 according to the guidelines included in AFM 65-506. This</p> <p>36 report will document the life-cycle cost and the benefits</p> <p>37 associated with the status quo and with privatization.</p> <p>38 The draft should be submitted to the base Financial</p> <p>39 Manager (FM) and the MAJCOM for review. It should</p>

The CEA will be based on the successful final revised proposal.

1 also be submitted to the SSA tasked with contractor
2 selection and contract negotiations.

3 4 **Preparing FinalEA for** 5 **Certification**

6
7 Review comments on the DraftEA should be provided
8 within three weeks once the draft is submitted. The
9 FinalEA must be prepared based on the review comments
10 and the final terms and conditions in the contract. The Life
11 Cycle cost analysis comparing the final alternatives will be
12 prepared using the AF CEA Model. The Final EA shall be
13 certified according to AFI 65-501 procedures.

14
15 Organization responsibilities include the following:
16 Utilities privatization study contractors will prepare the
17 draft CEA consistent with guidance. Bases will certify the
18 final CEA and MAJCOMs and HQ AFCEA will review
19 the final CEA.

20
21 **SAF/IEI Establish Fair Market Value.** The fair market
22 value of the utility system will be recommended by the
23 SSA selection of the best value proposal that meets
24 appropriate DoD directives and legislative requirements.
25 The CEA will report on the OCNLD and RCNLD
26 benchmark values and will report on the SSA's
27 recommended fair market value of the system. Final
28 determination of the Fair Market Value will be by SECAF.

29 **Finalizing Transition Plans**

30 Based on the final revised proposals, the transition plans
31 can be updated to reflect the selected offerors approach to
32 transition. The final transition plans will be the tool used
33 to control and guide the transition of operations smoothly.

34 **Finalizing Real Estate Instruments**

35 There will be a separate Bill of Sale and Right-of-Way
36 instrument for each utility system without regard to
37 whether the systems have been "bundled". This will
38 prevent confusion later by avoiding the need to separate
39 real property interests contained in a single document
40 should the owner transfer a system to another entity.
41 Additionally, it will prevent potential confusion in the
42 inventories attached to the Bills of Sale and the property
43 descriptions attached to the Rights-of-Way by ensuring

1 that each instrument has only one inventory or property
2 description, as the case may be. Property transfer
3 instruments will be finalized by filling in the appropriate
4 spaces and attaching the appropriate attachments. The
5 real estate documents are signed by the contractor and
6 submitted with the bid proposal.
7

8 **Preparing the Final Comprehensive Analysis Report**

9 Once the selection is made, real estate documents signed,
10 and the contract is awarded, the Final Comprehensive
11 Analysis Report will be prepared and submitted. The
12 Final Comprehensive Analysis Report will describe all the
13 processes used and will include all the data obtained. The
14 Final Comprehensive Analysis Report should summarize
15 the Feasibility Analysis Report from Phase I with updates
16 from Phases II and III. The outline for the Comprehensive
17 Analysis Report is provided in **Appendix E**.

18 **Preparing the Approval Package**

*The Approval Package
summarizes all data for
submission to SAF/IEI.*

19 The Comprehensive Analysis Report must be summarized
20 in a Project Summary Report to be included in an
21 Approval Package. An outline of the Project Summary
22 Report is provided in **Appendix E**. The Project Summary
23 Report and CEA are included in an Approval Package for
24 formal submission to SAF/IEI. The Approval Package will
25 also contain the basic contract and property transfer
26 instruments signed by the offeror.

27 Proper procedures will be followed when submitting
28 source selection sensitive information to the Air Staff.

29 To avoid the Source Selection Sensitivity issue, address the
30 approval package memorandum as follows:

31 **MEMORANDUM TO HQ USAF/ILEXO**

32
33 The requirements for the congressional notification
34 package are SSS and four tabs and indicate the process the
35 packages go through from receipt at Air Staff to signed
36 memo back to the SSA/MAJCOM/Base for award of
37 contract. The tabs are: 1) The congressional authorizers
38 notification of intended award, 2) the congressional
39 appropriators notification of intended award, 3) the CEA
40 for each system involved 4) copy of 10 USC § 2688.

Execute transition and post-award project management.

Awarding the Service Contract and Signing the Property Transfer Documents

Following SAF/IEI approval of the project, SAF/IEI will coordinate Congressional notification. The service contract and the property transfer instruments (the Bill of Sale and the Right-of-Way) are signed at the same time, although the property transfer instruments do not actually take effect until the contract start date. Signature authority of the property transfer instruments may or may not be delegated at the discretion of SAF/IEI.

Implementing Transition

Having planned the operational transfer of the system and the transition of the affected civil service employees, and having included these requirements in the contract, close coordination with the new owner will be necessary for the project to be successfully implemented. The Post-Award Project Management Team and QA/QC organizations will be put in place to evaluate performance, confirm compliance with property transfer conditions, and assure that services are delivered in accordance with the contract. When transition is complete, the installation will be left with a long-term utility service contract to administer. This contract, which is the vehicle for obtaining quality service, will be monitored by the Post-Award Contract Management Team, just as utility contracts are administered around the Air Force today.

Environmental Baseline Survey

An EBS may be necessary in the case of some utility system sales. The level of analysis will be determined on a case-by-case basis depending on the specific circumstances of the privatization action. Generally, a privatization action that only results in the sale of the system with a right-of-way (i.e., no land is sold) will not require an EBS. Nevertheless, in some circumstances it may still be desirable to conduct an EBS to establish the condition of the land surrounding the utility system. This is most likely to occur in the case of the sale of a wastewater system that includes a treatment plant. If the Grantor (AF) determines that an EBS is required, the Grantee (owner) will prepare the EBS in accordance with the Grantor's standards and requirements. Costs for this EBS will be born by the Grantor. The EBS will be performed with the successful offeror after the award. If such an EBS is required and

1 prepared, upon expiration, termination, or abandonment
2 of the Right-of-Way, Grantee will prepare another EBS, in
3 accordance with Grantor's standards and requirements,
4 which will document the environmental condition of the
5 property at the end of Grantee's use of the premises. The
6 Parties will share equally the cost of that EBS.